TRADE, TRANSPORT AND FINANCE

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TRADE, TRANSPORT AND FINANCE

WITH EXAMINATION QUESTIONS IN
THE THEORY AND PRACTICE OF COMMERCE
BUSINESS ORGANIZATION AND COMMERCIAL
CORRESPONDENCE

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PREFACE

IN designing this volume, the author's purpose has been to provide the student with a manual containing, in the smallest possible compass, an outline of the principles and practice of commerce in all its most important branches. His special thanks are due to Sir Richard Gregory for valuable suggestions in the production of the book, and to many business friends who have been kind enough to supply documents and expert advice in dealing with various sections.

The book is not intended to be an imaginative picture of the romance of commerce. It is necessarily concerned largely with hard facts and legal details. To the author the facts here set forth are, however, not without human interest, for many of them have been gleaned from his own commercial experience or collected during several years of original research and inquiry among business men, and all have been discussed and learnt by his students. Commercial students do not attend classes to hear the poetry of commerce, if such there be, but to gain precise knowledge; and they can receive stimulus from it according as the subject is connected with their daily life.

The book amply covers the intermediate and advanced syllabuses in *Theory and Practice of Commerce* of all the leading examining bodies, a list of which is given on p. viii. It also covers the whole of the *Commercial Correspondence* and *Business Knowledge* and the *Business Methods* syllabuses,

with the exception of the most elementary notion of home trade, office procedure, letter writing, etc., whic are dealt with in another volume, entitled *Principles an Practice of Business.* Candidates for Degrees in Commerc and Economics should also find the volume a useful startin point in preparation for the more detailed study whic they are required to undertake.

While endeavouring to make the book as comprehensiv as possible, care has been taken to eliminate unnecessar details. The word " unnecessary " is here used advisedly for the scope of the subject is so wide that no part could b appreciated sufficiently to satisfy the inquiring mind, or t be of any use to those actually engaged in business life without mention of many relevant facts. Generalization which are not based on definite fact usually create in th student's mind a vague idea having no lasting value, an the enunciation of principles cannot be regarded as usefu without the support of examples. For this reason severa minor points are included in the descriptions of certai produce exchanges, although it is not suggested that th student should learn every detail by heart. Their inclusio will help him to form a more definite idea of the methods an customs attaching to each trade, and to compare them wit those obtaining in other branches.

G. MAIRET.

CONTENTS

KEY TO ABBREVIATIONS USED IN THE QUESTION PAPERS.

C.I.S. - -	Chartered Institute of Secretaries.
D.C.C. - -	Devon County Council.
N.U.T. - -	National Union of Teachers, *Theory and Practice of Commerce* and *Commercial Correspondence.*
S.A.cc.II. -	Royal Society of Arts, *Commercial Correspondence and Business Knowledge,* Stage II.
S.A.cc.III. -	Ditto, Stage III.
S.A.tpc.II. -	Royal Society of Arts, *Theory and Practice of Commerce,* Stage II.
S.A.tpc.III. -	Ditto, Stage III.
U.E.I.cc.Elem.	Union of Educational Institutes, *Commercial Correspondence and Business Methods,* Elementary.
U.E.I.cc.Inter.	Ditto, Intermediate.
U.E.I.cc.Adv. -	Ditto, Advanced.
U.E.I.swp. -	Union of Educational Institutes, *Secretarial, Work and Practice.*
U.L.C.cc.3. -	Union of Lancashire and Cheshire Institutes, *English and Commercial Correspondence,* Third Year.
U.L.C.cc.4. -	Ditto, Fourth Year.
U.L.C.cc.5. -	Ditto, Fifth Year.
U.L.C.tpc.3. -	Union of Lancashire and Cheshire Institutes, *Theory and Practice of Commerce,* Third Year.
U.L.C.tpc.4. -	Ditto, Fourth Year.
U.L.C.tpc.5. -	Ditto, Fifth Year.
W.R. - -	West Riding County Council.
Y.U. -	Yorkshire Union of Institutes.

CHAPTER I.

THE MEANING OF COMMERCE.
CONSTITUTION OF BUSINESS UNITS.

Production.—In the language of Economics, " production " means the creation of utility and value. Chemistry teaches us that man cannot create matter ; but man may give it **utility** by transforming the elements of which it is composed, or by transporting it from one place to another, and most things which have utility to the owner also have **value** in exchange for other things of which he may stand in need. Direct production consists of giving utility to things, or even persons : the utility of commodities is created or increased either by *transformation*, or by *translocation* ; direct service to persons is rendered in education, medical or legal advice, recreation, etc. Indirect production results from the exchange of commodities or services, by inducing the receiver to render value for value.

Industry and Commerce.—The word " Industry " is used by economists to include all those activities through which goods and services are obtained ; and the countless occupations into which the industry of the world is divided are classified by them as follows :

(*a*) *Extractive Industries*, comprising those industries which have for their object the extraction of natural wealth from the earth, such as agriculture, fishing, forestry, mining, quarrying, etc.

(*b*) *Constructive and Manufacturing Industries*, such as building, road-making, weaving, engineering, etc.

(*c*) *Commercial Occupations*, or those which result in the translocation or distribution of commodities—including money—from the sources of supply to the persons who want them, and at the required time and place. Commercial occupations are summarized in the title of this book: "TRADE, TRANSPORT AND FINANCE."

(*d*) *Direct Services*, *e.g.* the work of lawyers, physicians, preachers, entertainers, teachers, politicians, civil servants, and those engaged in the army, navy, air, and police forces

What has been said above is the language of teachers of political economy, but not that of the average business man. The word "Industry" is usually employed to denote manufacture, or the exploitation of natural wealth; and "Commerce" includes any business which helps in the work of distribution. Moreover, labour is classified for purposes of factory or works organization as **Productive** if the worker is engaged in directly handling and transforming the product, and **Unproductive** if he is employed on the administrative or commercial side of the undertaking. In common parlance Industry is synonymous with Production, and Commerce implies Distribution. Administration has been discussed elsewhere[1]

DIVISIONS OF COMMERCE

TRADE TRANSPORT FINANCE

Home Foreign WAREHOUSING

Wholesale Retail Banking Investment Insurance

Import Export

[1] See *Principles and Practice of Business*, p. 65.

The Entrepreneur.—Economists use the word *entrepreneur* to denote the person whose initiative creates or directs any undertaking, whether it be great or small, industrial, agricultural, commercial, artistic, scientific, educational, or what not. In English the same idea could be better expressed in the words "undertaker" or "employer," for it is the *entrepreneur* who undertakes the responsibility of the enterprise, directs it, and employs labour to realize its objects.

The *entrepreneur* is said to unite the three agents of production, *viz.* capital, labour and land (or nature) Of those the first essential is capital, for without it the undertaker can neither pay his workmen or assistants, nor acquire the territory or premises or material to commence his undertaking.

Forms of Business Unit.—Commercial and industrial enterprise is carried on with a view to profit under three main types of management or ownership, *viz.* .

1. Sole Traderships, or One-man concerns ;
2. Partnerships
   Ordinary or *Limited* ;
3. Joint-Stock Companies ·
   Unlimited or *Limited*,
   Public or *Private*.

In addition to these may be mentioned Government and Municipal undertakings, Co-operative Societies,[1] Mutual Insurance Offices and Friendly Societies (p. 220), which are the property of the State, the municipalities, or the people who patronize them, as the case may be.

In the majority of cases the business undertaker's motive for entering into partnership, or floating a company is (*a*) to raise working capital. But many partnerships and private companies are formed (*b*) to combine technical skill with business ability, (*c*) to increase connections and combine interests, and (*d*) to relieve the proprietor or partners of an

[1] See *Principles and Practice of Business*, chap. 9.

existing business, the development of which involves increasing responsibilities. In many manufacturing businesses one partner is found to manage the works department, while the other takes charge of the commercial side.

It sometimes happens that an employee is engaged in consideration of the capital or business connections he brings to the firm, who allow him interest or commission, as the case may be, in addition to salary. Such an arrangement is unsatisfactory to the employer in that it reduces his authority to demand obedience. The employee, if he is really worth his salary, ought to be able to use his capital or connections to better advantage in a business of his own, or as a junior partner.

A **Partnership** is defined in the Partnership Act, 1890, as "the relation which subsists between persons carrying on a business in common with a view to profit." The joint proprietors are known as the **partners**, and persons who have entered into partnership with one another are called collectively a **firm**.

Every partner is **jointly liable** with his co-partners for the *whole* of the firm's obligations An unpaid creditor may therefore proceed against the firm or against any of the partners individually. Judgment having been entered against the firm, execution may be issued against the property of the partners, but if a creditor obtains judgment against one or some of the partners he has no further right of procedure or execution against the others.

A writ of execution cannot be issued against any partnership property except on a judgment against the firm.

In Scotland, partners are **jointly and severally** liable.

A person who is admitted as a partner does not thereby become liable to the creditors of the firm for anything done before he became a partner; but a partner who retires does not thereby cease to be liable for partnership debts or obligations incurred before his retirement. With the consent of the firm's creditors the other partners may, however, release him.

To avoid liability for debts contracted after he has ceased to be a partner, a retiring partner must give *express notice* to all persons who have had dealings with the firm. An announcement in the *London Gazette* is sufficient notice to persons who have not yet had dealings with the firm. (For Scotch and Irish firms the *Edinburgh Gazette* or the *Dublin Gazette* are used respectively.)

Each member of a partnership is an **agent** of and for his co-partners, having authority to bind them to any contracts he may make in the ordinary scope of the firm's business. A partner's authority may be restricted by agreement with the others, but if such a partner exceeds his authority the firm cannot escape responsibility towards any person not having received notice of the agreement.

Any person who lends his name to a firm or "knowingly suffers himself to be represented as a partner" may be held liable, as if he were a partner, for debts contracted towards parties who have been misled thereby. Such a person is known as a **Nominal** or **Ostensible partner**

Ordinary or **active partners** are those who put their labour or money into the concern and appear to the public as partners. A **sleeping**, **dormant** or **silent** partner is one who takes no active part in the conduct of the business (though he may invest his money in it, and use his influence behind the scenes), and does not allow his name to appear to the world as a partner.

In an **Ordinary Partnership** both active and sleeping partners are liable to the full extent of the firm's debts.

The mutual rights and duties of the partners within the firm are regulated by the terms of the partnership agreement, which should be contained in a written Deed or **Articles of Partnership.** In many cases, however, the agreement is merely verbal, and so indefinite that what has been agreed can only be inferred from the conduct of the parties.

A properly drawn-up deed will leave little room for doubt as to the intended relationship of the partners. Its terms must depend largely upon the partners' motive for joining

together, but a proper agreement may be expected to contain clauses referring to .

1. Names of the partners and nature of the business.
2. Firm name and address.
3. Capital and interest allowed thereon to each partner.
4. Conduct and duties of the partners.
5. Partners' authority to commit the firm to contracts, and consequences of exceeding such authority.
6. Keeping of proper accounts and partners' access thereto.
7. Division of profits.
8. Partners' salaries (if any), drawings, and interest on drawings and advances.
9. Duration and dissolution of partnership.
10. Return of capital and apportionment of surplus assets.
11. Settlement (usually by instalments) with executors of deceased partner.
12. Arbitration.

Unless otherwise agreed, any question arising in the ordinary course of the partnership business is decided by a majority of the partners, but a new partner cannot be admitted, or any change made in the nature or constitution of the business, without the consent of all the partners.

In the absence of any agreement, or where disagreement arises in the interpretation of the agreement, disputes are settled, whether by arbitration or process of the Court, in compliance with the Partnership Act, 1890,[1] and the legal decisions which have been given thereunder.

Subject to any agreement between the partners, a partnership is dissolved—

(1) If entered into for a fixed term, by the expiration of that term ;
(2) If entered into for a single adventure or undertaking, by the termination of that adventure or undertaking;
(3) If entered into for an undefined time (*i.e.* if it is a partnership "at will"), by any partner having given notice to the other or others of his intention to dissolve the partnership.

[1] And the rules of equity and of common law applicable to partnership except so far as they are inconsistent with the Partnership Act.

(4) By the death or bankruptcy of any partner.
(5) At the option of the other partners, if any partner suffers his share of the partnership property to be charged (see p. 9) for his separate debt.

A partnership is in every case dissolved

(6) By the happening of any event which makes it unlawful (*e.g.* outbreak of war with a country of which one of the partners is a subject).

On application by a partner the Court may decree a dissolution of the partnership on the grounds of

(7) Lunacy;
(8) Permanent incapacity;
(9) Conduct prejudicial to the carrying on of the business;
(10) Wilful or persistent breach of the partnership agreement; or
(11) When the business can only be carried on at a loss; or
(12) When other circumstances have arisen which, in the opinion of the Court, render it just and equitable that the partnership be dissolved.

In settling accounts between the partners after a dissolution, (*a*) Losses, including losses and deficiencies of capital, are paid first out of profits, next out of capital, and lastly, if necessary, by the partners individually in the proportion in which they were entitled to share profits. (*b*) The assets of the firm including the sums, if any, contributed by the partners to make up losses or deficiencies of capital, are applied in the following manner and order:

1. In paying the debts and liabilities of the firm to persons who are not partners therein;
2. In paying to each partner rateably what is due from the firm to him for advances as distinguished from capital;
3. In paying to each partner rateably what is due from the firm to him in respect of capital;
4. The ultimate residue, if any, is divided among the partners in the proportion in which profits are divisible.

Limited Partnerships.—The Limited Partnership Act of 1907 made it possible, by an adaptation of company law to partnerships, for a sleeping partner to have a financial interest in a firm without incurring an ordinary partner's

liability towards the firm's creditors. Limited partnerships are governed by the general law of partnership as modified by the Limited Partnerships Act.

A limited partnership must consist of one or more **general partners**, who are liable to the full extent of the firm's debts, and one or more so-called **limited partners**, who at the time of entering into the partnership must contribute thereto a stated amount in money or property, and are not liable for the firm's debts or obligations beyond the amount so contributed.

Every limited partnership must be registered, or in default it is deemed to be a general partnership, and every limited partner is deemed to be a general partner

Registration is effected by sending by post or delivering to the Registrar of Joint Stock Companies [1] a Statement containing among other particulars a description of every limited partner and the sum contributed by him.

Any change in the partnership must be notified within seven days by filing another statement.

No arrangement under which a general partner becomes a limited partner, or a limited partner assigns his share, is of any effect until notice of the change is published in the *Gazette*.[2] Any person may inspect the statements filed in the Register Offices on payment of a fee not exceeding 1*s*. for each inspection, or may receive a certificate of registration or certified copy or extract, for which maximum fees are fixed by statute.

A limited partner must not take part in the management, and has no power to bind the firm, but he may, by himself or his agent, at any time inspect the books of the firm and examine into the state and prospects of the business, and may advise with the partners thereon. If, however, a limited partner takes part in the management, he becomes liable as though he were a general partner.

[1] At the Register Office in London, Dublin or Edinburgh, as the case may be.

[2] The *London Gazette*, *Dublin Gazette*, or *Edinburgh Gazette*.

General partners thus have practically a free hand to conduct the business as they like without the interference of limited partners, provided they keep within the terms of the deed of partnership. Subject to any agreement, any difference arising as to ordinary matters connected with the partnership may be decided by a majority of the general partners; a limited partner may, with the consent of the general partners, assign his share, and upon such assignment the assignee becomes a limited partner with all the rights of the assignor, or a limited partner may suffer his share to be charged for his separate debt without entitling the other partners to dissolve the partnership; whereas an assignment of a share in an ordinary partnership only entitles the assignee to receive the share of profits (or assets in case of a dissolution) to which the assigning partner would otherwise be entitled, without the right to interfere in the business or inspect the books. A new partner may be introduced without the consent of the existing limited partners, and a limited partner is not entitled to dissolve the partnership by notice Moreover, a partnership is not dissolved by death or bankruptcy of a limited partner, and the lunacy of a limited partner is not a ground for dissolution by the court unless the lunatic's share cannot otherwise be ascertained

In the event of the dissolution of a limited partnership its affairs are wound up by the general partners, unless the court otherwise orders Application to the court to wind up a limited partnership is made by petition under the Companies Acts, and the provisions of those Acts relating to the winding up of companies by the court apply to the winding up by the court of limited partnerships, as modified by the Limited Partnership (Winding-up) Rules of 1909.

Although there are many limited partnerships[1] on the Continent, comparatively few firms in this country have taken advantage of the Limited Partnership Act, because the formation of a private company (see p. 17) entails but little more formality, and offers greater advantages. All the members enjoy the privilege of limited liability, and

[1] Fr. *Société en commandite simple.* Ger. *Kommanditen-gesellschaft.*

the shares, whether the holder takes an active part in the management or not, may be transferred without interfering with the financial arrangements of the business. On the other hand, the unlimited liability of the general partners in a limited partnership affords additional security to creditors.

Registration of Business Names Act, 1916.—This Act was passed during the war of 1914-18 in order to prevent undesirable aliens carrying on business in this country from concealing their identity by trading under an assumed name.

Every individual or firm having a place of business in the United Kingdom under a business name which does not consist of the true names of the proprietors must be registered within fourteen days of commencing business. A Statement is sent to the **Registrar of Business Names** in London, Edinburgh or Dublin, as the case may be, and the Certificate of Registration received from him must be hung up in a conspicuous place in the office. Moreover, every individual and firm required by this Act to be registered must, in all trade catalogues, trade circulars, show cards and business letters, have mentioned the true names, nationality, and nationality of origin, if not British, of every person who is a proprietor in the business.

A statement must also be filed (*a*) by any individual, firm or corporation (see p. 11) carrying on business as nominee or trustee for other concerns, or as general agent for foreign firms ; (*b*) whenever a change is made in any particulars registered in respect of any firm or person ; and (*c*) whenever the Board of Trade may require it.

The registration of business names is additional to any other requirements regarding registration under the Limited Partnership Act or the Companies Acts.

Foreign Interests in Companies.—Special requirements regarding foreign interests in incorporated companies are contained in the Companies (Foreign Interests) Act, 1917, and the Companies (Particulars as to Directors) Act, 1917.

Companies.—A partnership, whether general or limited, may not consist of more than twenty persons, or if it is

engaged in banking the number is limited to ten. If more persons combine to carry on business, they must by law be registered as a **Company**.

A company is an **incorporated** association of individuals who "contribute money or money's worth to a common stock and employ it in some trade or business, each contributor sharing the profit or loss arising therefrom." The total value contributed is called the **capital** of the company, and is divided into **shares**. Each contributor is a **member** of the company, or, as he is commonly called, a **shareholder**.

EXAMPLE.—Suppose a company is formed to take over an already existing business, or to acquire patent rights with a view to manufacture, the vendor or patentee (as the case may be) to be paid partly in cash and partly in shares, thus becoming a member of the company. His contribution is not money, but "money's worth," consisting of the assets of the business, including goodwill, or the right to use his patent. That part of the purchase price which he receives in cash comes out of the common stock provided by the other shareholders.

The shareholders of a company are given privileges which are not enjoyed by the partners of an unincorporated firm, in respect to their liability, and the permanency and transferability of their shares in the undertaking.

The members of a partnership are jointly liable, and the extent of a general partner's liability is the full extent of the firm's debts: but the shareholders in a company are *not personally liable* for the company's obligations. A company is a **corporate body**—a legal personality—capable of proceeding or being sued in its own name. A company is never said to be bankrupt; but if it cannot pay its debts application may be made to the Court to have it wound up and liquidated. Then, if the assets are insufficient to pay creditors and the cost of liquidation, the **liquidator** makes **calls** upon the shareholders to contribute **rateably** according to the value of the shares they hold.

A shareholder's liability terminates altogether one year after he has ceased to be a member.

The liquidator enters the names of all persons liable to contribution on two Lists called A and B, the first containing the names of *present* shareholders, and the second those of all persons who were holders *within a year* of the first day of the winding-up. The latter are only liable in the event of the call on List A contributors being insufficient to meet all liabilities in full.

Shareholders have no authority, as such, to bind the company to any contract with third persons, nor have they any power to take part in the management of the business. All administrative power is vested in a Board of Directors, who are elected by the shareholders, and must obtain qualification by taking at least one share in the company.

The rights and privileges of the shareholders are defined in the companies acts and in the Articles of Association (p. 15). They are entitled to attend and vote at the meetings of shareholders which are held from time to time, and before each Ordinary General Meeting, which must be held at least once a year, they receive a Report and Balance Sheet. The holders of not less than one-tenth of the issued share capital of the company, upon which calls or other sums then due have been paid, may requisition [1] the convening of an extraordinary general meeting.

A shareholder cannot obtain a return of his money during the existence of the company, and if the shares are not fully paid-up he remains liable for any calls, as explained above. Shares may, however, be transferred, though their transference may be restricted by the terms of the Articles of Association.

A company may be wound up (*a*) voluntarily by resolution in general meeting,[2] in which case a liquidator is appointed (also in general meeting) to distribute the assets of the company. Companies may also be wound up (*b*) by the court, or (*c*) subject to the supervision of the court.

[1] By § 66 of the Companies (Consolidation) Act, 1908.

[2] § 182 of the Companies (Consolidation) Act, 1908.

Winding up by the court implies a compulsory liquidation, where the court takes over the whole business of winding up, and appoints a liquidator. Such a state of affairs may be brought about by insolvency, or neglect of the company to pay its debts, or to make any compromise with its creditors. Winding up subject to the supervision of the court arises out of a voluntary liquidation, but is not often resorted to.

Formerly, the privilege of incorporation was granted only to people who had sufficient influence to obtain a **Royal Charter** or the passing of a special **Act of Parliament.** The East India Company, the New River Company, the Hudson's Bay Company and the Bank of England were among the most famous of those incorporated in the seventeenth century, and the South Sea Company, formed in 1711, enjoyed among other privileges the special protection of its interests by the British fleet. The Royal Mail Steam Packet Co., incorporated by Royal Charter in 1839, has an authorized capital of £25,000,000.

In **1844** a statute was made by which incorporation without the special authority of parliament or charter first became possible. But special powers were still, and are to this day, necessary to the incorporation of undertakings of a public nature, such as railway, canal, dock, gas, electric light and water companies, for reasons stated on p. 172. Their rights and obligations are defined in their own special statutes, and in the **Companies (Clauses) Act, 1845.**

The law regarding companies not formed by statute or charter, after having been modified and built up in many statutes passed since 1844, was eventually *codified* in the Companies (Consolidation) Act, 1908, to which three more companies acts have since been added, the whole being now known as the Companies Acts, 1908 to 1917.

Limited Liability was first recognized by a statute passed in 1855.

A Limited Liability Company is one in which the members are liable only to the extent of the unpaid portion (if any) of

the shares they hold, or the amount they guarantee to contribute. If the shares are **fully paid-up** the holder cannot be called upon to pay any more; but if, having been allotted (say) 100 £5 shares, a member has paid only £2 10*s*. per share, he is still liable to the extent of £250.

Incorporation.—Any seven or more persons may, by subscribing their names to a Memorandum of Association and otherwise complying with the requirements in respect of registration, form an incorporated company, with or without limited liability (that is to say) either—

(i) a company limited by shares; or
(ii) a company limited by guarantee; or
(iii) an unlimited company.

Unlimited companies are not common, and many which were originally formed as such have since been re-incorporated with limited liability.

Companies limited by guarantee are not formed for purposes of profit, because they are not allowed to distribute a dividend. Mutual insurance societies, trade associations, political and sports clubs, etc., are commonly registered in this category.

The **Memorandum of Association**, in the case of a company limited by shares, must state—

(i) the name of the company, with "Limited" as the last word in its name;
(ii) the situation of its registered office;
(iii) its objects;
(iv) that the liability of the members is limited; and
(v) the amount of share capital with which the company proposes to be registered, and the division thereof into shares of a fixed amount.

No subscriber of the memorandum may take less than one share, and each must write opposite to his name the number of shares he takes.

The memorandum constitutes the "charter" of the company, defining as it does its name and constitution, its objects, and the amount of capital it will be authorized to raise. The company has no power to act beyond the powers contained in the memorandum.

Before filing the memorandum the promoters or solicitors of the proposed company should write to the registrar to ascertain that the name under which they desire it to be registered is available, as two existing companies must not be registered with the same name, and objection is raised to certain names if they are misleading or otherwise undesirable. The "objects" clause is made as comprehensive as possible, as it cannot readily be altered. The Act of 1908 allows this clause to be altered in certain respects, subject to the passing of a special resolution and the sanction of the court.

The **Articles of Association** are the rules governing the internal affairs of the company, and define *inter alia* the powers and duties of directors, the procedure to be followed in calling and voting at meetings, the issue, payment, transfer, forfeiture and conversion of shares, etc. A company limited by shares is not compelled to file articles of association (unless it is a private company), and where no articles are registered the schedule known as **Table A** appended to the Act of 1908 becomes the articles of the company.

le A is intended to serve as a model on which the articles of a company may be framed, with such modifications as may be desirable to suit special requirements. Sections 95 to 108 provide *inter alia* that no dividend shall exceed the amount recommended by the directors, nor be paid otherwise than out of profits, that the directors shall cause true accounts to be kept, and that a copy of the balance sheet shall be sent, seven days previous to the meeting, to persons entitled to receive notices of general meetings, together with a report of the directors as to the state of the company's affairs, the amount which they recommend to be paid by way of dividend and the amount, if any, which they propose to carry to a reserve fund.

In addition to the Memorandum and Articles, various other forms—including a **Statement of the Nominal Capital**—have to be filed with the registrar. The Statement of Nominal Capital must be impressed with an *ad valorem*

duty of five shillings per £100. The registration fees are prescribed in Table B of the Act.

If the registrar finds that the documents are in order he will grant a **Certificate of Incorporation**, which is usually framed and hung in a conspicuous position at the registered office of the company. A private company may now commence business; but other companies must first file a declaration that shares payable in cash have been allotted to an amount not less than the "minimum subscription" named in the *Prospectus*, and that every director has paid the proper amount due in cash on each of his shares.

The registrar will then issue a **Certificate entitling the Company to commence business.**

Prospectus.—Most large companies are financed by means of an invitation to the public to take shares, and for this purpose the promoters issue a Prospectus stating the terms of issue, and general information concerning the business which it is intended to undertake, or purchase, or extend, as the case may be. In drawing up the prospectus the specific requirements of the Act must be carefully observed, as non-compliance with some of them exposes those responsible to heavy penalties. Among other particulars the prospectus states the **minimum subscription** on which the directors will proceed to allot shares. The prospectus is usually published in abridged form in the daily papers, together with a form of application which applicants for shares are requested to fill in and send with their cheques to the company's bankers, or to the office of the company or its brokers.

A prospectus is not always necessary. The capital of small companies is subscribed in many cases by the partners or associates of the business from which the company has emerged. There are other companies—known as **one-man companies**—which are almost entirely controlled by one man, who has supplied practically all the capital, and admitted a few relatives, friends or employees, for the sole purpose of

making up the minimum number of members required for incorporation.

On or before the date of its publication every prospectus must be filed for registration. A company which does not issue a prospectus must not allot any of its shares or debentures unless before the first allotment a **Statement in lieu of Prospectus** in the form required by the Act has been filed with the registrar. This obligation does not apply, however, to a private company.

Share and Loan Capital.—The capital subscribed by the members of a company is divided into Shares of fixed amount, and until the statutory declaration referred to on p. 16 and the prospectus or statement in lieu—where necessary—have been filed, the company must not exercise any borrowing powers. The public may be invited, however, in the same or another prospectus, to subscribe for shares and what are known as **Debentures**, which are loans of fixed amount, for which the lender receives a *Bond* or *Certificate* stating the amount and the terms on which the loan is received by the company.

The difference between shares and debentures or **bonds** is that the shareholders are the company, whereas the debenture holders are creditors of the company. If the company makes a profit, each shareholder is entitled to receive his portion thereof, called a **Dividend**, as agreed in the terms of issue and the articles of association. If the company finds it necessary to raise additional money by borrowing, and issues debentures, the bond holders must receive **Interest** on their money, whether the company makes any profit or not. The meaning of "preference shares" and other categories of share and loan capital is explained on p. 31.

A **Private Company** may register with a minimum of two members, and enjoys certain privileges not given to other companies.

A private company is prohibited, however, from making any invitation to the public to subscribe for shares or debentures in the company, and it must, by the terms of its articles of association, restrict the right to transfer its shares.[1] Also, the number of members is restricted to fifty, exclusive of those who are, or were when they became members and have continued to be, employees of the company.

The privileges are (1) reduction of the minimum membership to two; (2) exemption from the provisions of the Act applicable to other companies as to statement in lieu; (3) permission to start business on receipt of certificate of incorporation, (4) exemption from the provision that preference share and debenture holders must have the same right to receive and inspect balance sheets and reports as ordinary shareholders; and (5) exemption from two other provisions as to filing a "statutory report" and a "statement in the form of a balance sheet."

Results of Company Formation.—The rapid development of business enterprise which has taken place during the last half-century is largely due to the introduction of the principle of limited liability. The limited company attracts capitalists who would be unwilling to risk their money as partners in an undertaking in which they took no active part, and the share and loan capital of the various limited companies is issued on terms which suit the requirements of all sorts of investors, from the most prudent to the most speculative. Debentures and preference shares may be almost as safe as government loans, but they invariably offer a higher rate of interest or dividend. Ordinary and deferred shareholders incur a greater risk, but the possibility of gain is unlimited, and the speculative investor who buys shares in an undertaking which he believes

[1] It is sufficient if the articles provide that the directors may refuse to sanction a transfer without assigning a reason.

to be profitable foresees the possibility that after the subscription lists are closed he may be able to dispose of his holding to would-be shareholders for more than the issue price. When one considers the great business undertakings of the present day, the importance of capital to the economical working of commerce can readily be understood. The departmental stores, multiple shops and large wholesale businesses are able to exist because they have the means to negotiate a large turnover, to buy in large quantities and therefore cheaply, and to organize the work of their staff in such a way that each member gives full value for the salary he is paid, while the work is so apportioned as to keep each one occupied in doing the task for which he is best suited. The company promoter can always raise money for an undertaking of undoubted advantage, and investors are often induced to provide capital to exploit entirely new ideas, as examples of which may be mentioned the first railway, motor 'bus and aeroplane companies, and the Channel Tunnel. Another effect of the growth of limited companies has been an enormous extension of stock exchange dealing, and the creation of an army of stockbrokers, promoters, underwriters and financial houses all over the world, who derive most of their profit from buying and selling commercial and industrial securities for their clients, and floating or providing capital for promising companies.

Competition and Coalition.—There is an increasing tendency among separate business units engaged in the same or allied trades to join forces by the formation of trade associations and trusts, with the object of strengthening themselves and eliminating competition. The public are apt to denounce any sort of "combine" as a device to exploit the consumer. Actual facts, however, as reflected by statistics of prices, do not support this accusation, and the economist, on whose judgment figures should exert more influence than feelings, regards this tendency as the

natural and healthy development of organized social activity, in which the primitive law of supply and demand tends to be and is eventually supplanted by control and co-operation.

The principle forms of coalition or combination of business units may be divided into two groups, viz. (*a*) the Producers' or **Sellers' Association**, known in Germany by the name of *Kartell* or **Cartel**; and (*b*) the **Trust**. The difference between the two groups lies in the degree of independence which each particular form of coalition allows its members to retain, and may be appreciated best by consulting the following classification of functions :

OBJECTS AND METHODS OF COALITION.

CARTEL FORM.[1]	1. Standardization of Conditions of Sale.
	2. Standard Grading of Qualities.
	3. Regulation of Minimum Prices.
	4. Division of Clientèle.
	5. Selling through Central Syndicate.
	6. Restriction of Output.
	7. Pooling of Profits or Net Receipts.
TRUST FORM.	8. Community of Interests by purchase of shares.
	9. ,, ,, by exchange of shares.
	10. Absorption.
	11. Amalgamation.

The line of demarcation between the cartel and the trust form of coalition actually falls at the point where the parties agree as to profits. Each member of a cartel is free to make as much profit as he likes ; but in a trust profits are apportioned among the members according to a pre-arranged plan, and in the closest form of trust the members lose their individuality altogether, and continue business under one management.

The trade associations attached to the various produce exchanges may be classed as cartels having for their object the standardization of terms of contract and grading of qualities. Such standardization benefits not only sellers,

[1] According to Dr. Schär, in *Handelsbetriebslehre*, I.

but buyers too, by obviating a great deal of useless bargaining, bringing about a better understanding between buyers and sellers, and facilitating the work of arbitrators in case of dispute.

In associations of manufacturers the standardization of quality is rarely possible, but examples of it may be seen in the iron and steel trades (p. 408). Terms of payment, discounts and allowances, time of delivery, packing charges, etc., are usually the first question on which such associations seek an understanding, and the next step is the fixation of minimum prices. Unfortunately where business is scarce it is usually difficult to keep the members of a price cartel to their agreement, for there are many ways of breaking the spirit of the law in such a matter without openly breaking the letter thereof. Association prices may be put on invoices and statements, and the buyer given a secret rebate or some advantage in the way of quality. A further step towards unity is the agreement whereby each member engages to abstain from canvassing or dealing with the customers of his co-members. The writer, who has been a member of a manufacturers' cartel,[1] has found in practice that this form of agreement is the loosest knot that it is possible to tie between competing firms. Some cartels have adopted the course of allotting to each member a certain selling territory, or panel of customers, and securing their adhesion to the agreement by means of a deposit.[2]

Central Selling Organizations or **Syndicates** are a far more complete and permanent means of eliminating competition. The syndicate is usually constituted as a limited company or as a co-operative society, and profits are divided among its members in proportion to the value of goods delivered by each.[3] The German coal, iron and potash syndicates are the greatest organizations of this kind in the world, and the co-operative producers' societies set up by the farmers of Denmark, Holland, Canada,

[1] *Société Suisse des Fabricants de*

[2] This was done by a cartel of Swiss brewers in 1907, but was abolished in 1911 because the *restaurateurs* were so determined to be free to choose their suppliers that they set up breweries of their own.

[3] See *Principles and Practice of Business*, p. 27.

and New Zealand fulfil a similar object in the domain of produce dealing. The question of prices and the quantities which each member may dispose of, is more easily settled in the case of produce than manufactured goods. A syndicate of manufacturers must eventually cope with the question of over-production, and restrict the output of each member to a "contingent" of such amount that each may have a fair share of the market.

The **Pool** differs from the syndicate in that it apportions the *profits* derived from joint trading, whereas the syndicate apportions the proceeds of sale. An example of the pool may be found in the interworking of competing lines of railway (p 194) where the net receipts are apportioned equitably among the competing companies, regard being had to the amount each has contributed to the joint service in working expenses

The original form of American trust, from which the name is derived, consisted of a coalition of firms or companies who made over their entire undertakings to a group of persons appointed as Trustees, from whom they received Trust Certificates securing their agreed share in the profits. The American Anti-Trust Acts have put a stop to this form of combination, and it has been universally superseded by the **Modern Trust**, which is brought about by the purchase or exchange of shares

A partial trust or **community of interests** arises where one company gains a certain amount of control in another by purchasing some of its shares, either in the open market or by subscription to a new issue. A closer union is achieved by each company increasing its share capital, and issuing the new shares by arrangement in exchange for shares in the other company or companies.

A complete fusion is effected by absorption or by amalgamation. **Absorption** means the purchase by one company of the undertaking of another or others (known as the *subsidiary companies*), in return for payment in cash or in shares of the absorbing company. **Amalgamation** bears the closest resemblance to the original form of trust, as the companies interested (known as the *constituent companies*) unite to form another company (known as the *amalgamated company*). Each one of the constituent companies sells its undertaking in return for shares in the

amalgamated company. The constituent companies continue to exist so long as may be necessary to complete the amalgamation, after which they are wound up and cease to exist (see p. 196).

In any sort of trade association or trust, the uniting parties may have to contend with the competition of **outsiders**, who are not loth to wage guerilla warfare against their profits and principles. Both cartels and trusts seek to protect themselves against the invasion of price cutting competitors by extending their ramifications in a **vertical** as well as a **horizontal** direction; that is to say they seek to embrace suppliers and consumers as well as competitors in the same "combine." So for instance a cartel of spring manufacturers may seek to coerce outsiders to enter the ring by admitting all the suppliers of laminated steel, and giving them to understand that if they supply any outsiders they do so at the cost of losing all their other customers. The iron and steel trusts of this country and in America are the greatest examples of vertical expansion in the world (see p. 408). The great combines in coal and iron, meat, paper, petroleum, soap, textiles and tobacco have all brought about an expansion upwards and downwards as well as horizontally, and no large enterprise confines itself to one single stage of production or distribution. On the Continent the "trust" or "finance" banks (p. 111) are an important factor in trust formation.

Exercise 1.

1. How would you distinguish between (*a*) Production, (*b*) Distribution, (*c*) Administration? Give reasons for your answer. (S.A.tpc.II.)

2. (i) How does an extractive industry differ from a constructive industry?

(ii) Under what headings would you classify each of the following occupations? (*a*) Coal mining, (*b*) fisheries, (*c*) teaching, (*d*) insurance, (*e*) banking, (*f*) accounting.

3. (*a*) How would you distinguish between "Industry" and "Commerce"? (S.A.tpc.II.)

(*b*) How would you subdivide "Commerce"? (S.A.tpc.III.)

4. (*a*) What are the functions of the *Entrepreneur*?

(*b*) Would you include the *entrepreneur* under the heading of "Capital" or "Labour," or as a separate class? Give reasons for your answer. (S.A.tpc.III.)

5. Describe either (*a*) the office organization of a manufacturing business,[1] or (*b*) three principal forms of business organization other than the sole trader. (U.L.C.tpc.4.)

6. Draft a circular to be issued to his customers by Mr. Harry Coleman, Ironmonger, Shrewsbury, notifying removal to larger premises at 100 High Street, and that he has taken his chief salesman, Mr. Robert Price, into partnership; the name of the firm in future will be Coleman and Price. State that a large and varied stock is on view, and invite orders and inquiries.[2] (U.E.I.cc.Int.)

7. To what extent is a general partner liable for his firm's debts? And how do his actions in the partnership business affect his co-partners?

8. What do you understand by a Deed of Partnership? Mention some conditions which you think such a deed ought to contain. Is a deed necessary?

9. State briefly the objects of the Business Names Act, 1916.

10. What is a limited partnership? When is this form of combination preferable to (*a*) an ordinary partnership, (*b*) a limited company? (S.A.tpc.III.)

11. Define a "Company," and state briefly the privileges, rights and obligations of shareholders of a company, as distinguished from those of members of a partnership.

12. Explain: (i) Royal Charter company, (ii) statutory company, (iii) limited company, (iv) memorandum of association, (v) articles of association.

13. In what respects do private and public companies differ? (C.I.S.Int.)

14. What advantages may an old-established trader hope to derive from converting his business into a private company, and what are the attending disadvantages? (S.A.tpc.III.)

15. What are the general results of the tendency of business enterprise to be conducted to an increasing extent by limited companies? (S.A.tpc.II.)

16. Explain the meaning of (*a*) trade association, (*b*) cartel, (*c*) trust; and discuss the objects and methods adopted by each.

[1] See *Principles and Practice of Business*, chap. xiii.

[2] Write at the foot of the letter: "Mr. Price will sign . . ."

CHAPTER II.

STOCK EXCHANGE.

Origin of Stockbroking.—It was the establishment of the National Debt in the reign of William III. that gave birth to the business of Stockbroking in England. It had been the custom of English kings to borrow on their own security, and Parliament had often been asked to pay their debts. The war against Louis XIV. of France, which lasted from 1689 to 1697, was so costly that it was impossible to raise sufficient money by taxation, and the deficiency could not have been met by borrowing without substantial guarantees. In 1693, when the deficiency amounted to over £1,000,000 sterling, a bold and original financier named Charles Montagu devised a loan to be raised, not on the security of the king, but on that of the nation, and for that reason known ever after as the **nucleus of the National Debt.** The loan was taken up at once, and welcomed by City men who in those days had little opportunity of lending money on good security. In 1694 the Bank of England was established, in whose hands the negotiation of all future loans was placed. The whole of the capital was raised by public subscription as a loan to the government, for which the subscribers received their charter in addition to interest. William III. was of Dutch origin, and in adopting the plan of a national loan he followed the example of his ancestors, who were expert

financiers. At the conclusion of the Peace of Ryswick the national debt had increased to 14½ millions sterling, of which a large part was held by the Dutch. There was still a revenue deficiency of 5 millions, and more debt had to be raised. At the present time the national debt amounts to nearly £8,000,000,000.[1]

The government debt became known as the **Stocks** or **Funds**, and when towards the end of 1693 the total amounted to about 5 millions, buyers and sellers began to meet at the Royal Exchange (p. 129). Dealings were mainly for the account of foreigners, the first stockbrokers, or professional dealers, being agents for Dutch investors. The broker was useful to his London clients, because he was in touch with the market, and understood the formalities of transfer. The introduction by the Dutch of buying "for time," meaning for transfer and payment at some future time, gave an impetus to speculative dealing. From these beginnings arose the custom of brokers to contract with each other without declaring for whom they acted, and eventually to deal for their own account, as "jobbers."

Business rapidly extended to dealings in foreign government stocks, and the shares of joint-stock companies, of which the first was the East India Company, which was established by a charter of Queen Elizabeth in 1600, but did not become prominent until near the end of the seventeenth century. The Hudson Bay Company, which was incorporated by royal charter in 1670, and the Bank of England, are the only survivors among these early joint-stock companies, and their shares are extensively dealt in to this day. In 1698 the East India Company advanced money to the Government in return for a monopoly of trade with India, as a consequence of which a new East India Company was formed, which endured until 1857, when Queen Victoria was made Empress of India.

[1] Dec. 31, 1919, £7,908,000,000.
Mar. 31, 1920, £7,654,000,000.

The Royal Exchange was not long available for stock dealing, for the merchants objected to the invasion of their territory, and in 1700 the Corporation complained that the objects of the building were being diverted to a purpose for which it had not been intended. For over seventy years the brokers had no building of their own, but assembled in the streets and coffee houses in the neighbourhood of Change Alley.

The first stock exchange "boom" was brought about by speculation in the shares of the South Sea Company, which was formed in 1711, and carried on a prosperous trade with Central and South America, including the bringing of slaves from the coast of Africa to Jamaica. The company was so successful that its promoters conceived a plan for its aggrandisement by offering financial assistance to the Government on a scale far greater than that attempted by the Bank of England or the East India Company, in return for a monopoly of trade with the South Seas. A bill was presented to Parliament for taking over the whole of the National Debt, then amounting to nearly 31 millions, at a lower rate of interest than the various rates at which the loans had been issued, and in addition the company offered to pay a sum of £7,000,000 at once to the Government.

The project was of great advantage to the State, and was undoubtedly a sound business deal for the company. Already the State had provided a special force for the protection of the company abroad, and as the Chancellor of the Exchequer and other notable men were among its directors, the bill was passed without difficulty. The value of the stock rose by leaps and bounds, and additional capital was raised at a heavy premium. At the height of the boom as much as £1,200 was offered for £100 of stock, and large fortunes were made by speculators, one of whom, Thomas Guy, won half a million sterling, with which he founded Guy's Hospital.

This unprecedented boom became indirectly the cause of the ruin of the enterprise, and of many hundreds of people who had bought shares in it, for it fostered a mania for speculation and led to the creation of a number of bogus companies by swindlers, whose action brought about a depression as

complete as the enthusiasm that had been shown for the brilliant project of the South Sea Company. Companies were floated on the most senseless pretexts, such as "importing jackasses from Spain," "a wheel of perpetual motion," "an air pump for the brain," and others. One was called "A Company to carry on an Undertaking of Great Advantage, but Nobody to know What it is." Investors were promised a yearly income of £100 for every £2 deposited. The promoter opened an office in Cornhill, and fled the same day after receiving £3,000 in deposits. The South Sea Company prosecuted several of these swindle companies, but were unable to check the panic which ensued. Although the Bank of England came to the company's assistance, the stock fell to below 100, causing the ruin of hundreds of people. The ruined companies became known as "bubbles," and the South Sea Company was called the South Sea Bubble.

The title of "Stock Exchange" was first applied to New Jonathan's coffee house. The association was managed by a committee, and supported by voluntary subscriptions. In 1773 it removed to premises of its own at the corner of Threadneedle Street and Sweeting's Alley. The site in Capel Court, where the London Stock Exchange now stands, was purchased in 1802, when it was well organized, and for the first time non-members were excluded. The membership then numbered 500.

Marketable Securities.—Any share in a public loan or joint-stock company may be called a "marketable security," but not all marketable securities are bought and sold on the London Stock Exchange, and many securities are dealt in on one exchange and not on another. A share in a private company, though it may be sold privately, is not a marketable security, because such shares must not be offered for public subscription, their transference must be restricted by the articles of association, and the number of share-holders is limited.

Current prices of all the principal marketable securities

are quoted in every daily newspaper of importance. They may be classified as follows :

Loans.	British Funds and Guaranteed Stocks. British Corporation and County Stocks. Colonial Government Stocks. Indian and Colonial Corporation Stocks. Foreign Government Bonds. Foreign Municipal Bonds.
Capital and Loans.	Home Rails (*i.e.* British Railway Securities). Indian and Colonial Rails. American Rails. Foreign Rails. Commercial and Industrial Securities.

British Government Securities may be divided into three classes : The *Funded Debt*, which is not redeemable except at the option of the Government, and includes the two-and-a-half per cent. Consolidated Stock of the United Kingdom known as " Consols," the Bank of England stock and Bank of Ireland stock. The *Unfunded Debt* consists of loans which have been issued on the condition that they will be redeemed at a certain future date ; by far the greatest loans belong to this category, *e g.* the $3\frac{1}{2}\%$ War Loan 1925-8, $4\frac{1}{2}\%$ War Loan 1925-45, 5% War Loans 1929-47, 4% *net* War Loans 1929-42, Funding Loan, Victory Bonds, and **Exchequer Bonds**. The *Floating Debt* consists of Government borrowings for the shortest terms —say for one year or less—and consists mainly of **Treasury Bills** and money borrowed from the Bank of England on Ways and Means Account. The difference between Exchequer Bonds and Treasury Bills is simply that the first are bonds entitling the holder to interest and repayment of the principal lent within a specified time, whereas Treasury Bills are bills which are issued by the Treasury, *i.e.* they bear no interest, but are issued for public subscription at a discount.

Foreign Currency and Sterling Bonds.—Foreign public loans and company debentures (known in the United States as " bonds ") are usually expressed in the currency of the country from which they are issued, and the British investor must take the risk of loss on exchange when interest or redemption of the bonds falls due. Some foreign bonds issued in this country are expressed, however,

in sterling, or in currency at a fixed rate of exchange. The bonds of the American Railroad Companies and some foreign Governments are payable, both as to principal and interest, in the gold of the State issuing them. These three classes of security are known respectively as *Currency Bonds*, *Sterling Bonds*, and *Gold Bonds*.

Debentures.—Loans issued by joint-stock companies are usually known as "debentures," and the certificate which the subscriber receives in acknowledgment of the debt is called, like the loan itself, a *debenture*.[1] Like shares, debentures are generally payable by **instalments**, and they are applied for and allotted in much the same way (see p. 65).

An **Unsecured or naked Debenture** is a promise to pay, which places the lender in the same position as an ordinary creditor of the company, to sue for payment or apply for a winding-up by the Court in the event of the company failing to pay interest or to redeem the loan when due.

A **Mortgage Debenture** secures payment of principal and interest to the lender by giving him a charge on the property or undertaking of the company. The property which constitutes the security is vested in **Trustees** acting on behalf of the debenture holders, who are usually given a *specific charge* on certain fixed assets, and a *floating charge* on the undertaking of the company. No change in the constitution of the company, nor any dealing in the fixed assets secured in the Trust Deed can be effected without the consent of the debenture holders. For definition of a mortgage see p. 107.

Interest and Dividend.—For the investor, dividend and interest are merely different forms of income; but for the company issuing shares and debentures, dividends represent an *apportionment of profit*, whereas interest is an item of *expenditure* which must be met whether any profits are made or not.

At the end of each half-year or other financial period the books are balanced, the net profit or loss, after payment of

[1] Known in America as a "Bond," and in almost every other country as an "Obligation."

interest, is ascertained, and the directors report to the shareholders[1] before the general meeting the manner in which they recommend that the profit (if any) should be apportioned. Usually a part only of the net profit is declared available for dividend, and the remainder is set aside to contribute towards Sinking Funds (p. 76), Reserve A/cs, Superannuation or Benevolent Funds, etc., and any odd balance is then carried forward as " Balance of Profit and Loss A/c."

The Capital of most, but not all companies, is issued in two or more different classes, each class of shareholder being given the right to share in any distribution of profits before or after other shareholders, and to a less or greater extent than the other shareholders.

Preference Shares entitle the holders to payment of dividend up to an agreed percentage of the nominal value of their shares before any other class of shareholder receives any share in the profits. If the shares are preferential as to capital as well as dividend, then in the event of a liquidation the other shareholders would have no claim on the assets until debenture holders and creditors had been paid in full, and the preference shareholders had received a complete refund of their capital as represented by the face value of the shares they held. Preference shares are said to be **cumulative** where the holder's right of priority extends to payment of arrears. All preference shares are cumulative unless they are expressly issued as **non-cumulative**.

In some cases different classes of preference shares have been issued by the same company, each class ranking for dividend before or after the others, and bearing a distinguishing name or number, such as " A " and " B " shares, " Guaranteed " and " 1st Preference " shares, etc.

Participating Preference Shares entitle the holder to priority of dividend, and to share with other shareholders any

[1] Debenture holders are also entitled to receive the report.

excess of distributable profit remaining after the latter have received an agreed percentage on their capital.

Ordinary Shares.—The bulk of the share capital of most companies is divided into "Ordinary Shares," and where the shares of a company are of only one class they are called ordinary shares. Where more than one class of shares exist, ordinary shareholders rank for dividend after preference shareholders, but if the company is successful their shares may be much more valuable, because the dividend on ordinary shares is either (*a*) unlimited, or (*b*) restricted—where there are also "deferred" shares—to a higher percentage than prior dividends.

Deferred Shares yield no dividend unless profits available for dividend are more than sufficient to pay preference and ordinary dividends in full But if profits are large the deferred shares of a company may be worth more than the ordinary or preference shares, although they are usually issued in smaller denominations. They are often held by the vendors or founders of the business which the company was formed to purchase or develop, and have not been paid for in cash. They are then known as **Founders' or Management Shares.**

Stock.—Each class of share capital in a company is originally issued in shares of equal and fixed amount, each share is numbered, and the numbers of the shares held by each shareholder are entered in the Register of Members and Share Ledger, and are also shown on his share certificate. Subject to the terms of the articles of association, as originally framed, or as altered by special resolution, the company may convert its shares into "Stock," and give each member an amount of stock equivalent to the face value of the shares he holds. The shares then exist no longer as units, but are replaced by an amount of **Capital Stock** expressed, not in shares, but in money. Subject to any provisions to the contrary a stockholder may transfer any fraction of the amount of stock he holds, but, to avoid

complication arising from the registration of odd shillings and pence, the articles usually provide that the stock shall only be transferable in certain fractions or multiples of a pound.

Debentures may be numbered and issued in equal amounts, or they may be issued as **Debenture Stock** registered and transferable, like capital stock, in amounts instead of units.

Government and Municipal Stock is usually issued in multiples, or fairly large fractions, of £100, but Consols may be purchased to a nominal value of (say) £54 3*s.* 11*d.*, or any other odd amount that may be desired

Transfer of Securities.—The method by which the property in a marketable security is transferred from one person to another depends upon whether the security has been

1. Registered as transferable in the Transfer Books ;
2. Registered as transferable by Deed ; or
3. Issued in Bonds or Warrants to Bearer.

Inscribed Securities.—Holders of securities of the first class, called "inscribed securities," have no certificate or bond, the only evidence of their holding being an entry in the Transfer Books of the government or corporation which has issued the loan. British inscribed stocks and some Colonial and Foreign securities are registered at the Bank of England, whereas other inscribed securities are managed, as is the case with many municipal stocks, by one of the large joint-stock banks. The holder is given a **Stock Receipt,** which serves as evidence that the stock has been inscribed in his name, but the receipt does not convey any title to ownership, and is not required to transfer the stock.

In order to transfer Consols or other stock inscribed at the Bank of England, the seller must attend personally at the Bank to sign the transfer, or, by means of a **power of attorney,** authorize a recognized stockbroker or banker to sign for him. The seller must also be identified as the true owner of the stock by the selling broker or other person recognized by the Bank. The selling broker then receives

a stock receipt, which he passes on to the buying broker employed by the buyer.

Consols, and certain other Government securities that were originally issued as inscribed stock, may now be transferred by deed, and the War Loans, Funding Loan, Victory Bonds, Treasury Bonds and other recent issues, could be obtained transferable by entry in the transfer books, by deed, or by delivery to bearer. On payment of a small fee the holder of inscribed stock may have it registered as transferable by deed, and receive a Certificate.

SHARE CERTIFICATE.

No. 378. *Fifty* Shares.

BLUE HILL QUARRY COMPANY
LIMITED.

(Incorporated under the Companies Acts, 1908-17.)

CAPITAL £75,000, IN 75,000 ORDINARY SHARES
OF £1 EACH.

THIS IS TO CERTIFY that *Charles Schauenberg* of *No. 17 Bourne Hill, London, N.* 13 is the Registered Proprietor of *Fifty* Shares of £ ONE each, FULLY PAID, numbered 5854 to 5903 inclusive, in

The Blue Hill Quarry Company, Limited,

pursuant to the Memorandum and Articles of Association of the said Company.

SEAL

Given under the Common Seal of the Company this 29*th* day of *September*, 19....

A. B. Long
C. D. Broad } *Directors.*

E. F. Small, Secretary.

Note.—No Transfer of the Shares comprised in this Certificate will be registered until the Certificate has been delivered to the Company.

Registered Securities are those which are recorded in the books of the issuing company or public body, and for which certificates are issued to the holders as evidence that the

DEED OF TRANSFER FOR REGISTERED SECURITIES.

Stamp
Impressed
7s. 6d.

I, *Leonard Weaver, Manufacturer,*
of " *Gospels,*"
Ditchling,
Sussex.
in consideration of the Sum of *Sixty-five pounds* (£65) (See Note) paid by *Charles Schauenberg, Merchant,*
of *No* 17, *Bourne Hill,*
London, N 13.
hereinafter called the said Transferee,
DO hereby bargain, sell, assign, and transfer to the said Transferee
Fifty (50) *Ordinary Shares of* £1 *each*
fully paid-up, Nos 5854 *to* 5903 *inclusive,*
of and in the undertaking called the
Blue Hill Quarry Company, Limited
To Hold unto the said Transferee, *his* Executors, Administrators and Assigns, subject to the several conditions on which *I* held the same immediately before the execution hereof, and *he*, the said Transferee, *does* hereby agree to accept and take the said *Ordinary Shares*, subject to the conditions aforesaid

AS WITNESS our Hands and Seals, this *Twenty-second* Day of *September* in the Year of our Lord One Thousand Nine Hundred and *twenty-two*

Signed, sealed, and delivered, by the above-named
Leonard Weaver,
in the Presence of } *Leonard Weaver*
Signature, *H J. Little,*
Address, *The Chestnuts, Hassocks,*
Occupation, *Author*

Signed, sealed, and delivered, by the above-named
Chas. Schauenberg,
in the Presence
Signature, *W Wise,* *Chas Schauenberg*
Address, *Bank Chambers, E C* 1.
Occupation, *Commercial Traveller.*

Signed, sealed, and delivered, by the above-named
in the Presence of
Signature,
Address,
Occupation,

Certification No. 112
Certificate numbered 378, relating to the within named shares numbered 5851 5903 inclusive lodged with the Company this 25th day of September 1922
E. F Small, Secretary

Signed, sealed, and delivered, by the above-named
in the Presence of
Signature,
Address,
Occupation,

* Witness's * Witness * Witness * Witness Coupon for Stock forwarded to the Company's Office by

NOTE.—The Consideration-money set forth in a transfer may differ from that which the first Seller will receive, owing to sub-sales by the original Buyer, the Stamp Act requires that in such cases the Consideration-money paid by the Sub-purchaser shall be the one inserted in the Deed, as regulating the *ad valorem* Duty; the following is the *Clause* in question ·

" Where a Person, having contracted for the purchase of any Property, but not having obtained a Conveyance thereof, contracts to sell the same to any other Person and the property is, in consequence, conveyed immediately to the Sub-purchaser, the Conveyance is to be charged with *ad valorem* Duty in respect of the Consideration moving from the Sub-purchaser " [Stamp Act, 1891, Section 58 (4)]

* *When a Transfer is executed out of Great Britain it is recommended that the Signatures be attested by H.M. Consul or Vice-Consul, a Clergyman, Magistrate, Notary Public or by some other person holding a public position—as most Companies refuse to recognise Signatures not so attested.*

shares, stock or debentures named therein are the property of the holder, and stand registered in his name. The holder's rights are transferable by a **Deed of Transfer**, to which the signatures of both parties must be attested by witnesses, and which must be impressed with *ad valorem* duty at the rate of 10*s*. per cent. on the agreed value of the property. (In certain cases a fixed duty of 10*s*. is payable.)

The directors of a company may decline to register any transfer of shares, not being fully-paid shares, to a person of whom they do not approve, and may also decline to register any transfer of shares on which they have a lien. A fee not exceeding 2*s* 6*d*. may be charged for the registration of a transfer.

The procedure followed by stockbrokers in dealing with registered securities for their clients is as follows: The buying broker obtains from the selling broker the share or stock certificate, together with a form of transfer like that shown on p. 35 signed by the seller The buying broker passes on the transfer to his client for signature, and then sends the certificate and completed transfer to the office of the company or public body, as the case may be. The company's secretary notifies the transferor, as a precaution against fraud, the transfer is submitted for sanction to the Board of Directors, the securities are transferred in the books from the seller's name to the buyer's name, after which the old certificate is endorsed over to the buyer (if such is the practice) and delivered to him If the custom is to issue new certificates, or the seller is disposing of only part of the shares contained in his certificate, a new certificate must be prepared in the name of the buyer. In such a case the selling broker or his clerk would take the executed transfer to the company's office for **Certification** (p. 35) by the secretary. The certified transfer is then delivered to the buyer pending preparation of the new certificate, and is considered to be "good delivery," as it satisfies the buyer that he will have no difficulty in acquiring a good title to the securities.

Bearer Securities are usually entrusted to the holder's banker for safe custody, for as the property in them is

transferred by delivery to any *bona fide* holder,[1] the loss of the document itself would be a serious matter. Payment of interest or dividends is provided for by means of **Coupons.**

Some Colonial and Foreign Government Stocks and American and Foreign Railway Bonds are issued transferable by Deed, whilst others are given in certificates to Bearer. American railway shares have the peculiarity of combining the features of registered and bearer securities. The Share Certificates are issued in the name of the registered holder, but they have at the back a form of assignment which may be executed in blank so that any transferee by delivery may fill in his own name and subsequently claim to be registered as a shareholder.

The shares of British joint-stock companies are usually convertible, by the Articles of Association, into **Share Warrants to Bearer**, provided they are fully paid-up. The holder of a warrant must deposit the latter at the office of the company before payment of dividends, or if he wishes to vote at a meeting of shareholders, or he may obtain registration as a shareholder at any time on payment of a small fee. Share warrants are chargeable with stamp duty at the rate of 30*s*. per cent., or three times the duty payable on deeds of transfer. They are not nearly so common in this country as on the Continent.

If a dividend on a share warrant to bearer falls due before the holder has had his name registered, the holder must collect the dividend from the registered transferor.

Scrip.—To enable subscribers for Bonds, Shares or Stock to deal in their holdings before all instalments have been paid, some public bodies and companies issue "Scrip Certificates" as evidence that the holders have had the securities allotted to them, and are entitled to receive proper certificates when issued, and when all moneys due thereon have been paid.

[1] They are Negotiable Instruments.

The term "Scrip" is also used to denote any sort of bond, debenture, stock or share or certificate, whether registered or to bearer, as distinguished from the "Receipt" issued to holders of inscribed securities.

Gilt Edged Securities.—Those securities which offer the investor the greatest possible degree of safety, and in particular Trustee Stocks and Investments, are popularly known as "gilt edged."

Trustee Stocks are those specified in the Trustee Act, 1893, and the Colonial Stock Act, 1900. They include Government Securities, Public Funds or Parliamentary Stocks of the United Kingdom, real or heritable securities in the United Kingdom, Indian Government Securities and Guaranteed Stocks, Bank of England and Bank of Ireland Stocks, certain Municipal, Water Board and Colonial Stocks, Home Rails and Canals, and Indian Railway Stocks.

The Trustee Act was passed for the protection of trustees holding or investing money on behalf of other persons. Trustees may, unless expressly forbidden by the Trust Deed, invest money in any of the securities specified in the Act, and will not be held responsible for any loss that may result from such investment.

Floaters are those gilt-edged bearer securities, including Exchequer Bonds, Treasury Bills and Corporation Bills which the Bank of England is willing to accept as security for loans.

Income Tax.—Usually income tax is deducted from the dividend or interest before distribution to holders, and it is always calculated at the highest rate for unearned incomes. The deduction is certified on a **Voucher** attached to the dividend or interest warrant. This voucher, which should be carefully preserved, is accepted by the Inland Revenue Authorities as evidence of the deduction of income tax, if the share or stockholder makes a claim to exemption, or relief, from such tax.

Sometimes debentures and government securities bear a **Net Rate** of interest, *i.e.* free of income tax up to the rate current at the time the securities are issued.

Nominal Value.—Dividends or interest are calculated as a percentage of the nominal or **face value** of the securities. Where certificates are issued, the nominal value is the amount shown on the face of the certificate.

If the nominal value is the same as the amount subscribed, the share or loan is said to be issued **at par**. A security is said to be issued **at a discount** if the issue price is less than nominal, or **at a premium** if the issue price is more than nominal value. It should be noted that the law forbids the issue of shares at a discount, though a commission may be allowed to brokers or underwriters (see p. 66).

Loans (debentures, government stocks, etc.) are redeemable at par or at a premium, but never at a discount.

Market Value.—Once share or loan capital has been issued and subscribed, the only way to acquire it is to purchase the holding of somebody else. Like anything else of value, and which can be transferred, securities have their price, and the market price of stocks and shares is the price at which holders are prepared to sell, and buyers to purchase them.

The market value depends mainly upon four considerations: (1) Yield on money invested; (2) Safety; (3) Permanency; and (4) Supply and demand of capital generally. The price is quoted, in the case of stocks and bonds, at a figure representing pounds sterling per £100 nominal, whereas in the case of shares the price is quoted in shillings and pence, or pounds, per share. The main influences affecting the prices of marketable securities and the market rates of interest on loanable capital are explained in Chapter V.

Yield.—The yield of an investment is the actual percentage that the interest or dividend bears to the amount invested. Thus, money invested in Consols at 49¼ would yield the investor £5 1s. 5*d*. per £100; for if £49¼ buys £100 nominal, and Consols bear interest at the rate of

$2\frac{1}{2}\%$, then £$49\frac{1}{4}$ will yield an income of £$2\frac{1}{2}$. £100 invested will therefore yield $\frac{£100 \times 2\frac{1}{2}}{49\frac{1}{4}} = £5\cdot073 \doteq £5$ 1*s.* 5*d.* In calculating the yield from any given investment, consideration should of course be had for the terms of issue and redemption, and freedom or otherwise from income tax.

Insurance against Redemption at Par.—It is customary on the Continent to issue debentures redeemable by periodical lotteries or "drawings." A section (say a twentieth part) of the loan is redeemed each year, and lots are drawn in order to decide which numbers are to be called in. Now, if the market value of such securities is above par, it is clearly a loss to any holder to have his share called in *at par*, and this is a contingency which investors can insure against. The system originated in Geneva, and it has proved very profitable to the banks undertaking it. Premiums depend on the difference between market and redeemable value, the amount redeemed each year, and the amount still unredeemed.

The London Stock Exchange.—The present-day constitution of the London Stock Exchange dates from the year 1886, when the building was improved and extended, and the association re-organized. The Stock Exchange is now a company, of which every member must become a shareholder.

The management of the exchange as an institution is in the hands of nine **Managers**, but the business done on the exchange and the members themselves are controlled by a **Committee for General Purposes**, consisting of thirty members of at least five years' standing, elected by the other members. They hold office for one year, but are eligible for re-election on the 25th March of each year.

The Committee may expel any of its members for improper conduct, or expel or suspend any member of the Stock Exchange for violation of the rules, failure to comply with the Committee's decisions, dishonourable or disgraceful conduct, and may censure or suspend any member acting in any way detrimental to the interests of the Stock

Exchange. An authorized copy of the "Rules and Regulations of the Stock Exchange" may be obtained in book form through any bookseller. There are nearly two hundred rules, of which Nos. 72 and 176 are of great importance. In case of dispute between members the decision of the Stock Exchange Committee is final, and by these two rules, if any member attempts to enforce by law a claim arising out of a Stock Exchange transaction without the consent of the Committee, the latter "will deal with such cases as the circumstances may require." In any event the member would be expelled.

The members of the London Stock Exchange are divided into four classes, viz.: (1) Dealers (or "Jobbers"), (2) Brokers, (3) Clerks, and (4) Members not engaged in active business.

Dealers have no access to the general public. They deal within the House only, buying and selling on their own account, not as agents. They make their profit by buying at one price and selling at another.

Brokers act as agents for the general public. The broker is an intermediary between his Principal or client, and the Jobber. He must not execute an order with a non-member, unless thereby he can deal for his principal to greater advantage than with a member. The object of this rule is not merely to provide business for the jobbers; it also protects the client against unfair bargains in favour of other parties. The jobber's price is the true market price, because the jobber quotes to buy or to sell, at the broker's option, and must be prepared to do either.

Clerks.—Members may apply to the Committee for permission to introduce non-members or members as Clerks. Clerks are of three kinds: (1) Authorized Clerks, (2) Unauthorized Clerks, and (3) Settling Room Clerks. The number of clerks admissible for each individual member or firm is limited by the Rules of the Stock Exchange.

Membership.—The functions of broker and dealer are quite separate, and every member must declare whether he proposes to act as Broker, Dealer, or Clerk, or that he is not engaged in active business. "Double dealing" is strictly prohibited, and authorized clerks must act for dealer or broker, not both. A member may, however, alter his status from Broker to Dealer, or from Dealer to Broker, by first giving notice to the Committee, which notice is forthwith "posted" in the House.

Members are not allowed to advertise for business purposes, or to issue circulars or business communications to persons other than their own principals. Persons who advertise as brokers or share dealers are not members of the Stock Exchange or under the control of the Committee. A *List of Members of the Stock Exchange* who are stock and share brokers may be seen at the Bartholomew Lane entrance to the Bank of England, or obtained on application to the Secretary.

Admission of Members—All members must be elected, and retire at the end of each stock exchange year (on the 25th March), when they are eligible for re-election.

A person may become eligible for election as a member either (*a*) with Nomination, or (*b*) Without Nomination.

(*a*) All candidates for admission, except candidates under "Rule 28," must obtain the nomination of a member who is willing to retire in his favour, or of a former member, or of the legal representatives of a deceased member. (In practice, nominations are bought and sold by a Jobber dealing in nominations and Stock Exchange shares.) They must also be recommended by three members, and each recommender must engage to pay £500 to the creditors of the candidate, in case the latter shall be declared a Defaulter within 4 years from the date of his admission

(*b*) By Rule 28, a clerk having completed 4 years' service in the Stock Exchange or the Settling Room, with a minimum service in the House of 3 years, may apply to the Committee to be placed on the *Waiting List* of candidates for election without nomination. Candidates under this rule only need to be recommended by two members, each of whom must enter into an engagement as above mentioned, but for £300.

In addition to finding recommenders every candidate elected must pay an Entrance Fee, take a Share or Shares in

the Stock Exchange, and pay an Annual Subscription. The present (1922) requirements in this respect are as follows:

Members with 3 Sureties: Entrance Fee £630. Sub. £105. Three Shares.

Members with 2 Sureties: Entrance Fee £315. Sub. £52 10*s*. One Share.

For Clerks the annual subscriptions are:

Authorized Clerks: £52 10*s*.
Unauthorized Clerks: £15 15*s*.
Settling Room Clerks: £10 10*s*.

The Bargain.—For purposes of illustration we will imagine that a client instructs his Broker to purchase £1,000 L.B. & S.C.R. Deferred Ordinary Stock. In giving his instructions the client may fix a price limit which he does not wish the broker to exceed: say, "at 35 or lower." If he relies entirely on the broker to do the best for him, he will say "at best."

The Broker or his Authorized Clerk goes to that part of the floor of the House known as the "Home Rails market," meets a Jobber who specializes in this class of security, and asks him to *make a price* for "Berthas."[1] The jobber quotes say 34½-5. If the broker is satisfied, he says, "I buy one at 35," meaning that he wishes the jobber to sell him £1,000 nominal value of stock.

The jobber is bound to quote both prices, without asking whether the broker wishes to buy or sell. Moreover, an offer to buy or sell an amount of stock, bonds or shares at a price named is binding as to any part thereof that may be a marketable quantity; and when no amount is named the offer is binding to the amount of £1,000 Stock or bonds or the equivalent in foreign currency; 100 shares of a market value of less than £1, 50 of £1 to £15, or 10 of over £15; or 100 American dollar shares.

Broker and Jobber enter the bargain in their "rough" books, and properly record it later in the manner explained on p. 45.

[1] A slang term for L.B. & S.C. Def. Ordy. Stock.

The same procedure is followed by brokers instructed to sell securities for their clients, except that a selling broker who wished to dispose of £1,000 Berthas when the quotation was 34½-5, would say to the jobber "I sell one at 34½."

The Jobber's Turn.—The difference between the two halves of the jobber's quotation is known as the "Jobber's Turn." If he quotes at all, the dealer or jobber must quote a *double price*, and it is his business to watch the market carefully, and so adjust his quotation as to attract buyers and sellers in equal mounts. If the dealer has bought more than he has sold he stands to lose by a fall in the market; whereas if he has sold more than he has bought, by the time he has to deliver the stock the price may rise, and he will have to buy at a loss to cover his obligations

If buyers are more active than sellers, the dealer seeks to "even up" his book by raising his price—say from 34½-5 to 34¾-5¼, in order to encourage sellers, just as he would reduce his price to say 34¼-¾ to encourage buyers. If buyers and sellers commit him for about equal amounts he may seek to increase the number of his bargains by quoting a **closer price**, say 34⅝-⅞; whereas if the market is uncertain he protects himself by quoting a **wide price**, say 34⅜-5⅛, so adjusted as to allow a better margin for fluctuations, or in the hope of encouraging only buyers, or only sellers, according to the state of his book.

Marking.—The broker may, if he likes, "mark" the bargain by entering it on a slip, which he puts into a box provided in the Exchange. The price will then appear in the "Business Done" column of the List of Securities published daily under the authority of the Committee.

The prices of all bargains done between certain hours may be marked on this Official List, but no price may be inserted unless the bargain has been made between members and at the market price, nor on the authority of one of them if he refuses, when required by a member of the Committee, to give the name of the member with whom he dealt. The practice of marking has been much neglected, but it has

the advantage of providing evidence to clients that business has actually been done at the prices stated, and that the broker has dealt at market price, without favouring another party at the expense of his client. Under the Emergency Rules (p 52) all bargains over £100 had to be marked.

Checking.—At the end of the day each member has the items in his rough book copied into a **Bargain Book**, which the member's settling clerk takes to the **Settling Room** in the basement of the House. There the bargains recorded in the various members' bargain books are cross-checked, each settling clerk initialing his own book to show that the items are recorded in the books of the other parties.

Name Tickets.—The buying broker now prepares "tickets" for each purchase, showing the name of his client and the quantity of stock bought. Tickets for cash bargains must be passed within five days to the jobber, who in his turn passes it on to a jobber or selling broker from whom he has bought similar stock. The selling broker, who has to deliver stock, attaches scrip or certified transfer (see p. 36) to the name ticket, and returns it to the member whose name is on the ticket as the one who has to pay. By means of the ticket, the scrip or transfer thus finds its way to the buyer, and delivery is complete.

Where the nominal amounts bought and sold by jobbers do not coincide, it may be necessary for the jobber to divide a ticket into two or more **Split Tickets**, all bearing the same name

Contract Notes.—From the entries in his bargain book the broker prepares Contract Notes to send to his clients, showing the amount of stock, shares, or other securities, bought or sold for them.

The buyer is debited with the Transfer Duty in addition to the broker's Commission and Contract Stamp.

A **Minimum Scale of Commissions** is appended to the *Rules and Regulations of the Stock Exchange.* The scale fixes minimum rates of commission for different classes of stocks and shares: *e.g* Consols, $\frac{1}{16}$% on Stock; Bank of England and Bank of Ireland Stock $\frac{1}{4}$% on Money; Registered Stocks $\frac{1}{2}$% on Money; Shares, Registered or Bearer, at a sliding scale according to price, from $\frac{1}{2}$*d.* to 2*s.* 6*d.* per share, or where the price exceeds £25 per share, $\frac{1}{2}$% on Money.

Contract Stamp Duty is *ad valorem*, and is denoted by a special adhesive Government stamp used only for contract notes relating to the purchase or sale of securities. The rates are as follows:

Where the value is £5 and does not exceed £100, 6*d*.

For higher values

		s.	*d.*			*s.*	*d.*
not exceeding	£500	1	0	not exceeding	£10,000	10	0
	1,000	2	0	,,	12,500	12	0
	1,500	3	0	,,	15,000	14	0
	2,500	4	0	,,	17,500	16	0
	5,000	6	0	,,	20,000	18	0
	7,500	8	0				

For values exceeding £20,000, - - £1 0 0

For purposes of Stamp Duty, a contract note advising the purchase or sale of more than one description of stock or shares is deemed to be as many contract notes as there are descriptions of securities purchased or sold.

By the rules of the London Stock Exchange a broker issuing a contract note must use such form as will provide that the words "Member of the Stock Exchange, London," immediately follows the signature.

Where a broker carries through a transaction directly between two principals he must only receive brokerage from one of them, and the contract note must state that the bargain has been done between non-members.

Dealings "for Cash" and "for the Account."—Just as some of the produce exchanges[1] provide facilities for "spot" and "future" dealings, so on a similar principle may dealings in marketable securities be arranged **for Cash**, or **for the Account.** The difference is that, whereas every purchase or sale for cash results in actual delivery of stock and payment as soon as possible after the passing of the ticket, contracts for the account are not settled until the next "Account-day." Persons dealing for the Account are thus enabled to buy and sell the same stock before payment and delivery are due. Tickets for account dealings in

[1] See Chap. XV.

certain shares and ordinary stocks, dealings in which are numerous, are passed through the **Clearing House** in the Stock Exchange, where purchases are set off against sales and the amount of stock or shares to be delivered by or to each member is ascertained, on a similar principle to that followed in the produce clearing houses. The object of this is to save the clerical work connected with the passing of names. Each member pays a fee for the service of clearing.

The account system naturally facilitates speculative dealings, and indeed it was created for that object. It enables the "Bull" or the "Bear" (see p. 424) to deal for large amounts without taking or giving delivery, and without any disbursement beyond payment of "**Cover**" to the broker, if required, to secure the difference in the event of the market going against him.

The Ordinary Settlement is fortnightly, and consists of

The Mining Contango-day,
The General Contango-day,
The Ticket-day,
The Account-day.

There used to be a separate "Consols Settlement" held monthly, and a "Special Settlement" used to be fixed from time to time for new securities. But British and Colonial Government securities are not dealt in for the account nowadays (1922), and all new issues have to be settled in the ordinary way, for cash or for the account

Contango or "Continuation" **Day** is the first day of the settlement, and marks the beginning of a new account. On this day clients who do not wish to complete their transactions may arrange with their brokers to "**carry-over**" until the next account. **Ticket** or "**Name**" **Day** is the day on which tickets are passed. Delivery and payment are due on **Account** or "**Settlement**" **Day**—corresponding to "prompt" in produce dealings.

Contango is a term applied to fortnightly loans used by Stockbrokers to enable their clients who have purchased

forward to "carry-over" from one account to the next, and a rate of interest charged for such loans is known as a **contango rate.** Contango money is obtained chiefly from the banks, and partly from "**Money Brokers.**" The borrowers are called "**givers-on,**" and the lenders (who take in the stock for the time being) are known as "**takers-in.**"

The taker-in buys the stock at "**making-up price**" (*i.e.* the price ruling at 12 noon on contango or making-up day) and undertakes to resell it at the same price for the following settlement.

The bull who decides to carry-over does so because prices have gone against him, or have not risen enough to pay expenses, and he hopes for an improvement during the next account. The carry-over is recorded in a separate contract note called a **Continuation Note.**

Backwardation.—If a bear wishes to carry-over, he must get his broker to *borrow securities* to deliver in fulfilment of his contract to sell. Now, just as takers-in lend money from one settlement to the next, so holders of stock sometimes do the reverse by selling at one settlement on the understanding that they may buy back at the next. The charge for lending of stock to enable bears to carry-over is called "Backwardation." It should be noted that backwardation constitutes a fee, not interest, for whereas the taker-in lends money from one account to the other and charges interest thereon, the lender of stock does not part with any money.

Usually there are more bulls who wish to carry-over payment than bears who wish to suspend delivery. So long as bulls predominate, bears are not charged anything for carrying over their bargains, on the contrary, they can charge a contango rate to the bulls they are accommodating. It is when bulls are scarce that bears have to pay "Back."

Options in marketable securities are similar in principle to those relating to produce (see p. 428). The party who

pays a premium for the option to buy is said to *give for the call*; the seller of a put option is said to *take for the put.* The following is an extract from a list of option prices issued by a member of the Stock Exchange for his clients :

LATEST OPTION RATES

Call or Put of	Settlements 24th Aug	21st Sept	19th Oct
Brighton Deferred -	2½		
Caledonian Deferred	1		1½
Chartered - -	/10½		1/4½
Gold Fields - -	1/6		2/6
Johnnies - -	1/3	1/6	1/9

Call of	One month	Two months	Three months
5 % War Loan			1⅛
Conversion Loan			
Consols - -			

Pay Days	Option declaration days Mining	General
10th August -	3rd August	4th August
24th August -	18th August	21st August.
7th September -	1st September	4th September
21st September -	15th September	18th September
5th October -	29th September	2nd October
19th October -	13th October	16th October

The double option costs, as a rule, exactly twice the single option.

Option rates are quoted either per share or (in the case of stock) per cent.

A dealer taking for the call or put generally covers his obligation by buying or selling for the account. Options are therefore usually valid for periods coinciding with the fortnightly accounts, and if the holder wishes to close the bargain for the next Pay Day he must exercise his right on or before **option declaration day**, which is a day or two before the carry-over.

As dealings in Government securities are only for cash, options relating to them do not coincide with account dates.

"Cum" and "Ex."—When the time draws near for payment of dividend or interest on any security, or when bonuses or new shares are offered to existing shareholders (see p. 68), the price of the security is quoted either with

(*cum*) or without (*ex*) dividend, interest, or rights, as the case may be. Thus quotations may be marked

cum div.	ex div.	(x.d.)
cum int.	ex int.	(x.in.)
cum new	ex new	(x.n.)
cum rights	ex rights	(x.r.)
	ex coupon	(x.c.)
	ex all	

Shares, etc., are quoted ex dividend on or near the day the transfer books of the company are closed for dividend. The exact day for quoting ex div. is fixed for each class of security by the rules of the Stock Exchange.

Buying-in and Selling-out.—The issuer of a ticket is entitled to receive delivery within the time specified by the rules. Securities which are not delivered within that time may be "bought-in" in the market at whatever price may be demanded. The loss occasioned by such buying-in is borne by the ultimate seller, unless he can prove there was undue delay in passing the ticket on the part of any member, who is in that case liable.

A similar remedy is available to the seller of securities who does not receive a ticket within the prescribed time. He may "sell-out" against the buyer.

Buying-in and Selling-out must be effected publicly by the officials of the Buying-in and Selling-out Department. An official goes to the various parts of the House every day to fulfil this duty.

Default.—A member who is unable to fulfil his engagements is publicly declared a Defaulter by an official of the House called a "Waiter," who raps on a desk with a wooden hammer and reads out a notice calling attention of the members to the default. The defaulting member is then said to have been "hammered," and thereby ceases to be a member.

Two members are appointed annually by the Committee to act as Official Assignee and Deputy Official Assignee respectively, whose duties are very similar to those of the Official Receiver in bankruptcy, viz. to receive amounts owing from debtors and pay a dividend to creditors.. Each official assignee has to find security amounting to £1,000 from two or more members.

Private failures.—The Stock Exchange Committee do not permit or recognize any "private arrangements" between members. All failures must be notified at once, and the estate administered by the official assignee, who is only concerned with claims arising from Stock Exchange transactions, and admits none other to be proved against the defaulter's estate. Creditors are not allowed to make any compromise with a defaulter giving private intimation of his inability to fulfil his engagements; they must at once communicate with the Committee, so that the default may be publicly declared in the House.

Hammer Prices.—As soon as a defaulter has been "hammered" the official assignee makes a record of the middle prices current in the market immediately before the declaration of default. Such prices are called "hammer prices."

All outstanding transactions are closed at "hammer prices," and accounts are settled as follows: A member who has bought stock from the defaulter at (say) 50 must sell back at hammer price. If the hammer price is lower—say 48—the member loses £2 per £100 stock in the contract, and has to pay this difference into the estate. If the member had sold to the defaulter at 50, he would deliver to the defaulter's client, if the latter were willing to take up the stock; or, if that were not possible, he would buy back at 48 (hammer price), and be credited £2 for every £100 of stock, which difference he would subsequently claim against the defaulter's estate.

Temporary Regulations, 1915-22.—For eight years after the outbreak of war in August, 1914, the Stock Exchange was controlled by the Treasury. During this time Account dealings were suspended. They were not resumed until May, 1922, but British and Dominion Government issues were left on a cash basis.

During the first five months of the war the Stock Exchange was closed, and it was re-opened by permission of the Treasury on the 4th January, 1915, subject to certain conditions which were deemed necessary in the interests of the public. The object of the Temporary Regulations imposed by the Treasury was (*a*) to safeguard the London Market against forced

realization of securities and against operations for the purpose of depressing prices, and (*b*) to close the Market absolutely to the enemy.

The regulations authorized the Committee "at their discretion to fix a minimum price for any security below which no sale may take place," and provided, among other things, that "no new 'time bargains' be allowed." At the same time the Treasury formulated a scheme, in which the Bank of England concurred, whereby Account to Account loans could be continued, subject to payment of interest fortnightly, until after the end of the war. Effect was given to this scheme in a set of **Emergency Rules** issued by the Committee.

With the suspension of Account to Account dealings bulling and bearing naturally ceased. Options also ceased, although call options were still offered by "outside" dealers. It was therefore impossible to speculate for a fall in prices, and the only way to speculate for a rise was to buy a call option, or purchase securities for cash. Speculators succeeded, however, in increasing the value of their operations by purchasing on a margin of say 5% to 20% of the value of the shares purchased, the latter being deposited with the bank or broker as security for the amount advanced.

The fixation of minimum prices and the abolition of bearing have the effect of preventing sudden price depression, but the inherent value of a security depends upon the benefit an investor can derive from it, and cannot be permanently maintained by restrictions being put in the way of selling it.

Outside Brokers.—Those brokers and dealers who are not members of a stock exchange are called **outside brokers**. Being independent of the exchange, they are not bound by its rules except in so far as they may happen to deal with **inside brokers**. Most outside brokers advertise in the press, and some even run a special newspaper to encourage the public to deal with them, and in addition to buying and selling for their clients, offer them opportunities for speculating by buying options, purchasing securities by instalments with a view to resale, and buying and selling forward "on cover."

Outside firms who offer facilities for operating on cover or margin are sometimes known as "bucket shops."

Provincial Stock Exchanges.—There are local stock exchanges at Birmingham, Bristol, Cardiff, Leeds, Liverpool, Manchester, Newcastle, Edinburgh, Glasgow, Belfast and Dublin. They are of less importance than the London Stock Exchange, and do not separate the functions of brokers and jobbers.

Exercise 2.

1. Write notes on the history of the London Stock Market.

2. What are marketable securities ? Give some examples of British Government Securities, and explain their main characteristics. Define "Currency Bond" and "Sterling Bond."

3. Explain fully what is meant by a Debenture.

4. Explain : Interest ; Dividend , Pref. Share ; Ordy. Share ; and Deferred Share.

5. What is the difference between Stocks and Shares ?

6. Mention some examples of Inscribed Securities, and explain how a transfer of such securities is effected.

7. What are Registered Securities, and how are they transferred ?

8. Define and give examples of Bearer Securities. Why is it usual for a holder of bearer securities to entrust the scrip to his banker for safe custody ?

9. Define (*a*) Gilt-Edged Securities, and (*b*) Floaters. Mention some examples of each.

10. Explain: "Free of Income Tax"; Nominal Value; Market Value ; Yield ; Insurance against Redemption at Par.

11. State the functions of (*a*) Brokers, (*b*) Jobbers, and (*c*) Clerks on the London Stock Exchange, and the principal regulations regarding each form of Membership.

12. What is "the jobber's turn," and why does it vary (*a*) in the case of different securities, (*b*) in the case of the same security from time to time ? (S.A.tpc.II.)

13. Explain : Marking ; Settling Room ; Name Ticket ; Split Ticket ; Contract Note.

14. Without going into details, make an approximate statement of the fees and duties payable on the transfer of registered securities, and state to whom such expenses are chargeable.

15. State what you consider would be the advantages and disadvantages of fixing minimum prices for marketable securities, and making "bearing" on the Stock Exchange illegal.

16. Explain: Contango; Backwardation; Option; Outside Broker; Cover.

17. Write notes on "Buying-in" and "Selling-out"; Default; Insolvency; Hammer Price; Emergency Rules.

18. Define carefully the word "dividend." Explain (*a*) the terms "ex div." and "cum div." as used in relation to the price of securities, and (*b*) the difference between a dividend paid on shares and a dividend paid from a bankrupt's estate.
(U.E.I.sw.Adv.)

19. How would you distinguish between a speculation and an investment? (S.A.tpc.III.)

20. State shortly the meaning of the following terms and abbreviations:

(*a*) ex cp. (*b*) ex new. (*c*) Option declaration day.
(*d*) ex in. (*e*) L.S.

CHAPTER III.

NEW UNDERTAKINGS. WAYS AND MEANS.

Enterprise.—The first aim of any new business unit is either (*a*) to acquire an interest in or control of an existing undertaking, or (*b*) to attempt a new undertaking. The latter is the more risky course, and for that reason the individual of small means is usually more interested in the offer of an already established business than in proposals to create a new one, because in considering such an offer he may ascertain before committing himself exactly what profit the would-be vendor is making.

Buying a Business.—Small retail businesses not infrequently change hands through the introduction of wholesale firms, who are sometimes asked if any one of their customers wishes to dispose of his business; but the press is probably the most potent of all intermediaries between buyers and sellers of business interests. The insertion of one or two advertisements in the trade journals, or a perusal of the "Businesses for Sale" column in the daily press, will soon show a would-be purchaser that there are many people only too anxious to sell. Another method is to apply to a transfer agency, but of course a commission has to be paid to the agent if business results.

Perhaps the most obvious question that arises in the mind

of the shrewd buyer is: Why does the present owner wish to sell? The reasons most commonly given are:

> "Ill-health";
> "Going abroad";
> "Leaving the neighbourhood";
> "Capital required for other purposes";
> "Death of the Proprietor."

There is nothing to criticize in the last-mentioned reason, but the others may, or may not, be satisfactory. Ill-health is often the result of non-success, and if better attraction elsewhere decide the owner to sell up, one wonders whether the business offered for sale has any attractions at all.

A man retiring from business on account of advancing years may, instead of selling outright, put in a manager or junior partner under an agreement by which the business passes into the latter's hands altogether after a term of years. If the terms of the agreement are all right, no method could be safer or more satisfactory from the buyer's point of view.

Whatever the vendor's motives may be, the prospective buyer is mainly interested to see what the **net profits** have been for the last few years. The amount of **capital required** must be in keeping with the size of the profits, and if the books of account have been kept properly and certified correct by a reputable firm of **Auditors**, the net profits will be correctly shown. In small retail businesses scientific accounting is the exception rather than the rule. The prosperity of such a business may best be judged on the basis of the **Returns** (*i.e.* the gross takings), the **Expenses**, the **Average Profit** in amount and as a percentage of sales, and the **Average Stock**. The vendor must, of course, substantiate his statements by producing proper records.

As regards the material assets which are to be sold with the business, the vendor will first show details of these in a **Balance Sheet**, which will also reveal the extent of his liabilities.

For purposes of illustration we will imagine that a young man wishing to take up a retail business on his own account

has received an offer which seems to be worth considering, and is shown the following balance sheet:

ASSETS AND LIABILITIES
as on 31st January, 1923.

Dr.	£	*s.*	*d.*	*Cr.*	£	*s.*	*d.*
To Sundry Creditors:				*By* Cash *in hand*	19	0	0
Rent, Rates & Insurance -	25	0	0	*at bank*	100	0	0
Taxes - -	10	0	0	,, Sundry Debtors £160 0 0			
Trade Creditors	250	0	0	*less* 2½% 4 0 0			
Wages - -	15	0	0		156	0	0
,, Capital - -	1,700	0	0	,, Stock - -	1,600	0	0
				,, Fixtures -	125	0	0
	£2,000	0	0		£2,000	0	0

The Cash is not, of course, for sale; there would be no sense in buying cash. If, instead of having £100 to his credit at the bank, as above, the vendor had overdrawn his account, he would probably settle that himself.

The Debts due to and owed by the firm may be taken over by the purchaser to collect and pay, or the contract of sale may provide that the vendor pays his own debts and collects his own accounts. In any case the purchaser would not be likely to pay full net value for the book debts, as he might not be able to collect them all, and some of the debtors might keep him waiting a long time. Allowances would be made for discount, and for bad and doubtful debts, or the book debts would be collected on behalf of the vendor.

Stock and Fixtures usually represent the greatest value in the transaction. In the balance sheet these are shown at the vendor's valuation, which may be higher than the purchaser is prepared to pay. In many cases both parties agree that the stock and fixtures shall be transferred "at valuation," which means that a licensed valuer will be employed to value the property, and both parties agree to accept his estimate as correct.

So far, then, the purchaser pays for the stock, fixtures and any other assets taken over, at an agreed valuation, *minus* the amount of any creditors left to him to deal with.

But this is not all. In addition to acquiring the tangible assets mentioned above, the newcomer has the advantage of slipping into his predecessor's shoes—of serving his customers, and continuing the business in full swing. If the business is a profitable one this privilege is worth something. It is called "Goodwill."

***Goodwill.**—Lord Eldon defined goodwill as "nothing more than the probability that the old customers will resort to the old place," and it has been described by another judge as "the chance or probability that custom will be had at a certain place of business in consequence of the way in which that business has been previously carried on."

The sale of goodwill involves an implied and legal undertaking on the part of the seller *not to canvas* any of his former customers. Usually the buyer requires this undertaking to be extended and defined in writing in the form of a **Radius Agreement**. By means of such an agreement the seller undertakes to refrain from opening up a business of a similar nature within a certain radius (say five miles) for a period of say five or ten years. If the retiring owner's motives are sincere he will not object to signing a long agreement.

No radius agreement is enforceable against a bankrupt whose business is sold up by order of the court to satisfy his debts.

Goodwill is not always attached to a locality, and defined in a radius agreement. It may extend all over the world, and a registered **Trade Mark** is often an important part of it. In this connection it should also be remembered that it is not possible to assign a trade mark unless together with the goodwill of the business to which it attaches.

As to how much ought to be paid for goodwill, that is a problem for which no golden rule could be formulated. The value of goodwill is whatever the purchaser is willing to pay, and the vendor to take for it. The buyer may take the goodwill on the basis of a "three years' purchase," which means that he agrees to pay for it a sum equivalent

to the total net profits realized during the last three years. The aggregate net profits from two, three or any number of years' trading form a convenient basis for agreement between the vendor and purchaser, but the number of years that would represent a fair price must depend entirely upon circumstances, and to a large extent upon the tendency of profits to increase or decrease, as may be seen by comparing these two cases :

	Business "A"	Business "B."
1919 - -	£800	£1,200
1920 - -	1,000	1,000
1921 - -	1,200	800
Total Net Profits -	£3,000	£3,000

In both cases the aggregate net profits for the three years amount to £3,000, but it is easy to see which of the two businesses *appears* to be the more promising. Even though, however, allowance be made for the tendency of profits to increase or decrease, the net profits themselves may be a deceptive criterion of what the business is likely to be worth under different management.

It should be noted that "3 years' purchase" would be a very stiff price for goodwill in the case of most small retail businesses. The vendor might be satisfied with one year's purchase, or a round sum, say £100, or nothing at all.

In the retail, wholesale and manufacturing trades it is at least probable that the newcomer will be able to keep the customers together if he lives up to the reputation of his predecessor. But in the professions such is not the case. The goodwill of a doctor, a dentist or a solicitor lies mostly in his own personality and skill. The same applies to trades such as tailoring, where the personal element is stronger than in mere buying and selling.

Another question which may influence the value of goodwill is, whether the business is carried on on a *cash* or a *credit* basis. If a trader has been in the habit of allowing his customers long credit, his successor will probably have to do the same.

The value of goodwill may be influenced by the terms of the lease. If the premises are taken under a more than usually favourable agreement, that alone is worth something, whereas an onerous lease at a high rental must act as a deterrent to the prospective buyer.

Generally speaking, goodwill has no saleable value at all unless the profits are really attractive, and sufficient to induce the prospective buyer to take on the business in preference to starting a new one for himself. Quite frequently a purchaser cannot be found at all, although nothing is asked for goodwill, because the stock is too large, or unsuitable, and nobody can be persuaded to buy it except at a ruinously low valuation. But many a decrepit business has been brought back to life and prosperity by the proprietor himself floating a company to take it over.

In all cases the prospective buyer is entitled to a thorough inspection of the books, and the services of an accountant are frequently summoned to make a proper report. If the vendor deceives the purchaser by misrepresentation, the latter is legally entitled to claim damages to the extent of his loss through such misrepresentation; but such things are difficult to prove after the event.

The proprietor who has built up his own business does not usually include goodwill at all in his accounts or balance sheet, as it is not a sufficiently tangible thing to include among his assets. Even if he is certain that he could sell his goodwill if he wished to do so, the proprietor could not ascertain its value without selling it. If a business is sold, the buyer includes goodwill as an asset in his first balance sheet at the price he paid for it, because he wants to show that the various assets he has purchased, allowing for liabilities, total up to the purchase price. Each year or half year, when he makes out a fresh balance sheet, he will reduce the value of goodwill by say 10% or 20% or more, until it disappears altogether.

If at a future date the purchaser should wish to sell his business, or takes a partner, the question of goodwill would crop up again, and, as in the first instance, it would be a matter for *bargaining*.

For purposes of death-duty the Commissioners of Inland Revenue *assess* the value of goodwill if it has not yet been sold. Their assessment is usually considerably below the figure the goodwill would be likely to realize if it were sold.

Choice of Site for a New Business.—To a retailer whose business it is to attract the shopping public, a suitable site where people " go shopping " is essential to success, and an extra £50 a year in rent may mean £500 a year more profit. A dealer in " necessaries," on the other hand, may make a fortune in a working-class neighbourhood, where the turnover is good and the rate of profit satisfactory.

For a mail-order business the city has at least the advantage of facilitating supplies. But a wholesale warehouseman must occupy a central position with good communications, for he wants his retail customers to come from neighbouring towns to see him.

The question of lease is important. If premises are taken on a two or three years' agreement the tenant is at the mercy of the landlord at the expiration of that time, and if the neighbourhood develops and business becomes correspondingly more brisk, the landlord will not fail to raise the rent. On the other hand, a long lease means worry for nothing if the business should prove unsuccessful. In such an event the tenant can sell the remaining term of the lease, but he is still liable to the landlord for rent and maintenance if the sub-tenant makes default. He can only transfer his liability on the lease with the consent of the landlord, which the latter would not be likely to give unless he had reason to believe that the new tenant was a substantial person. If the landlord can be got to agree, a shrewd way is to start off with a short lease, and get the option of renewal.

In choosing a site for the erection of a factory many more considerations have to be studied. The manufacturer

is much less bound to the town than the merchant, though in the case of subsidiary trades engaged in supplying material or component parts for other factories, proximity to customers is of course desirable in order to obtain business and to secure prompt understanding on details concerning the execution of contracts.

A site in the country or outer suburbs is cheaper than a town position, and usually offers more facility for extension as the industry develops. It is not always easy, however, to obtain labour in rural places; the town attracts workpeople more than the tranquil countryside. Moreover, housing accommodation is not always plentiful. Prompt supply of raw material and accessibility to markets are important factors, and in the heavy trades a railway siding or a canal alongside the works may save in cartage the difference between a profit and a loss on working.

A merchant may successfully plan his office or warehouse to fit the premises at his disposal; but to obtain technical efficiency in manufacture the scheme ought, if possible, to be planned beforehand by experts, and drawings of and detailed reports on various sites compared. A copious supply of water is indispensable to some industries, and for others the local restrictions regarding smoke and poisonous fumes may be of great moment. Space for storage, dumping of slag, etc., and the possibility of extension, the mode of tenure, local bye-laws, drainage and availability of gas, electricity, water and power are other items that must figure in the report.

Some activities are of course inseparable from the town, where accessibility to the port, to customers, trade exchanges, the banks, post office, etc., cannot be sacrificed to any other considerations. Similarly, in the case of banks, insurance companies and the like, the prestige of the concern depends to a great extent upon the occupation of imposing buildings in a suitable environment.

Capital and Revenue.—In all business undertakings the nature of Revenue is such that it follows, and is indeed the result of Expenditure: the trader or producer must have some saved-up income or wealth with which to start and maintain his enterprise. This saved-up wealth is called "Capital," or *Fixed Capital* when it is used to acquire assets for permanent use in trading or manufacture, and *Circulating Capital* if it is spent in goods or material to be turned into goods for sale.

The financial accounts of a business may be divided into two categories, relating respectively to (*a*) Capital, and (*b*) Revenue. Money received from shareholders in payment of shares and money borrowed for long periods, belong to the first class, whereas money received from customers in the ordinary course of business, or from bills discounted and short loans in anticipation of payment by customers, is classed as Revenue. On the other hand, **Capital Expenditure** is expenditure on fixed assets, whereas **Revenue Expenditure** consists of disbursements for goods, wages, etc., and establishment charges.

In considering how much capital he will require, the industrial undertaker must first ascertain the amount that will have to be raised as fixed capital, to purchase and instal the necessary equipment. In addition to this, money will be required to purchase material, stores, fuel, etc., and pay wages, salaries and general expenses; but money laid out for such purposes, and in execution of orders received, may be expected to return in the prices received for the finished product, to be invested again in the work of manufacture, and thus to circulate in and out of the undertaking, always leaving something behind—it is hoped—for profit. The amount of such circulating capital is in most cases less than that sunk in the fixed assets, and may even be supplied by the raising of loans on the security of such assets.

In the merchant's business, however, it is the circulating capital which predominates, for the merchant's business consists of exchanging money for goods, and, without altering their form, turning the goods back again into

money. Salaries and wages, which must also be paid out of the circulating capital, are of comparatively small importance, for the merchant must work on a large turnover and a small margin for expenses and profit. The fixed assets of many large commercial undertakings, having no productive equipment, warehouse accommodation or vehicles of their own, are confined to the office furniture, typewriters, etc. The capital of the large retail undertakings, however, is invested to a greater extent in fixed assets, consisting of a more costly interior, and, in many cases, buildings and equipment purchased by the company or specially designed for the purpose.

In the first instance business undertakings are usually financed by their own proprietors the sole trader who uses his own capital, the monied partner of a firm, the shareholders who risk their savings in a company, the founders of co-operative societies, etc. Part of the capital may be borrowed, however, and a company may in the same prospectus invite the public to subscribe for shares and debentures.

The original share and loan capital may be increased for purposes of extension by

1. Issuing new shares ; or
2. Issuing debentures ;

and the capital resources of a firm or company may be further increased by

3. Private borrowing for long periods.

Temporary additions to the Circulating Capital are made by discounting bills, and short term borrowing, whereby the *entrepreneur* may increase his turnover without incurring a permanent burden of debt, on which interest must be paid. Moreover, short loans may be obtained at cheaper rates than long loans.

Issue of Capital.—Shares offered for public subscription are of course payable in cash ; but consideration for other shares may be given in kind, as where for instance a company is formed to take over an existing undertaking, and payment or part payment is given in shares of the new company. Similarly Founders' or Management Shares

are issued in exchange for assets contributed to the undertaking, or for services.

A prospectus inviting the public to take shares usually requires applicants to deposit part of the nominal value (not less than 5%) on **Application**, a further sum on **Allotment**, and the balance at specified dates when the company will make **Calls** on the shareholders. Thus, where £1 shares were issued, the terms of issue might be expressed as :

2*s*. 6*d*.	on Application.
7*s*. 6*d*.	on Allotment.
5*s*. 0*d*.	on 1st Call, 15th July, 1922.
5*s*. 0*d*.	on 2nd and Final Call, 16th Sept. 1922.
20*s*. 0*d*.	

The Form of Application attached to the prospectus usually states the name of the company's bankers, to whom applications and cheques are to be sent If this is done, all the financial work connected with the issue is undertaken in the "Issue Department" of the bank.

The Application List is submitted to the directors, and **Letters of Allotment** are sent to successful applicants. If the issue be over-subscribed, **Letters of Regret** are sent to those persons whose applications have been refused, together with a cheque returning their application money.

The articles may provide that the company has the right to agree to a **surrender** of shares, or to **forfeit** the shares of members who fail to comply with a Call Notice.

The **Authorized, Nominal** or **Registered Capital** is the amount of capital stated on the Memorandum of Association, and on which duty is paid. That part which is allotted to vendors and offered for subscription is called the **Issued Capital** ; any balance not issued is termed the **Unissued Capital**, and may be issued later without altering the Memorandum. Clearly the **Subscribed Capital**, viz. that which has been actually taken up, may be of less amount than the issued capital ; and of the subscribed capital part may be **Called-up Capital** and part **Uncalled Capital**. The actual money received from shareholders is termed the **Paid-up**

Capital. Any amount of paid-up capital which may have been surrendered or forfeited is shown on the balance sheet as a liability, until such time as it may be re-issued, and taken up by another shareholder.

Shares and debentures may be issued **at par**, or at a **premium**; and debentures may be issued at a **discount**. But it is illegal to issue shares at a discount, though a **Commission** may be allowed to Brokers on subscriptions obtained through them, or to **Underwriters** who guarantee to take up any balance of shares not applied for to safeguard the company against the risk of having to wind-up because the minimum subscription (p 16) has not been received

If shares or debentures are issued at say £102 for every £100 face value, the premium of £2 per cent. may be regarded as a profit; but it is usually entered as a *Reserve* on the liabilities side of the balance sheet.

If debentures are issued at say 97, the discount of £3 per cent. is shown as an asset in the balance sheet, either separately or included in the *Preliminary Expenses*. Such assets are gradually "written off" out of profits, in the same way as the amount paid for Goodwill.

The date on which every call will be made is usually stated on the prospectus. If, however, part of the capital is to remain uncalled for an indefinite time, the unpaid portion is a *contingent liability* on the shareholders, who may be required at any time to complete the amount. Many banks and insurance companies have a large uncalled capital, but the Articles will be found to contain a proviso that the unpaid portion shall only be called in the event of a winding-up. The uncalled capital affords additional security to creditors, but it is a hindrance to shareholders who wish to sell their shares, and it is doubtful whether, on the winding-up of a large company, whose shares are in the hands of both rich investors and those of limited means, the full amount could be called in. If no restrictions are placed on transfer the security is far less.

EXAMPLE.—Suppose a company is floated to purchase and develop a manufacturing business, the Vendors agreeing to sell for £300,000, and to accept payment of half the purchase price in cash, and the balance in shares.

The Company has been registered with a Capital of (say) - - - - - - - - £500,000

Of which are offered for Public Subscription—

150,000 7½% Cumulative Preference Shares of £1 each and
200,000 10% Ordinary Shares of £1 each.

And issued to the Vendors—

150,000 Deferred Shares of £1 each.

500,000

Assume that the 350,000 shares offered to the public have been fully taken up, but that 200 shares (on which £100 had been paid) have been surrendered or forfeited, and £900 remains due to the Company in respect of Calls in arrear. The Company has therefore received from its shareholders in Cash - £349,000

Out of which sum are paid—

(*a*) the Preliminary Expenses incurred in floating the company, including brokers' commission, say -	£5,000
and	
(*b*) half the Purchase Price payable to the Vendors in cash as agreed -	150,000

Leaving a Cash Balance of - - - £194,000

The Company's affairs might now be roughly stated as follows:

LIABILITIES			ASSETS		
Subscribed and Paid-up Capital			Leasehold Property - -	£35,000	
150,000 7½% Cum Pref Shares of £1 each	£150,000		Plant, Machinery and Fixtures	115,000	
Deduct 200 shares forfeited - -	200		Stock-in-trade - - -	60,000	
	£149,800		Goodwill - - - -	90,000	
Deduct Calls in arrear - -	400	£149,400	(*Purchase Price*) - -		£300,000
200,000 10% Ordy. Shares of £1 each - -	£200,000		Preliminary Expenses - -		5,000
Deduct Calls in arrear - -	500	199,500	Cash at Bank - - -		194,000
150,000 Deferred Shares of £1 each, fully paid - -		150,000			
Forfeited Shares A/c (Amount paid) - -		100			
		£499,000			£499,000

In issuing shares of different kinds, or debentures as well as shares, the intention of the directorate may be to attract the largest number of investors. The prudent investor can be persuaded to apply for debentures or preference shares, whereas ordinary or deferred shares would offer greater attractions to the speculatively inclined.

Vendors', Founders' or Management shares usually give a deferred right of dividend. The willingness of the vendors or founders of a business to forego participation in profits until the money subscribers have had their dividend is a sign of good faith and confidence in the undertaking; at the same time such deferred shares may give the vendors or founders the lion's share if the business is successful.

In raising additional capital for purposes of extension, the directors' sole consideration should be the interests of present share and debenture holders. Members of a prosperous company have no desire to share their benefits with outsiders. They may therefore resolve that the fresh capital required be raised by the issue of debentures or preference shares, which will only absorb a limited amount of the profits, or, if debentures have already been issued, to issue "2nd debentures" on conditions which shall not prejudice the interests of holders of the first series. Whatever the terms of the new issue may be, but particularly where new shares are to rank *pari passu* with other preference or ordinary shares, existing shareholders are given a prior right to subscribe for the new shares. If the issue is attractive, such rights increase the value of the old shares, making a difference between the "cum new" and "ex new" quotation. The right itself may be transferred by means of a **Letter of Renunciation.**

A prosperous company may increase its share capital in order to bring dividends into more reasonable proportion to the nominal value of the shares. Extraordinary profits may also be disposed of by means of cash bonuses or bonus shares distributed among the shareholders. Where the number of founders' or bonus shares for which no cash has

been paid is excessive, the capital is said to be "*watered,*" and naturally the more the capital of a company is watered, or inflated, the less will be the dividend payable on the cash shares.

Ways and Means.—The duty of the Cashier, Chief Accountant, or other official in charge of the *Financial Department* of any business, is to keep accurate records of income and expenditure, and to provide the management with reliable and up-to-date figures to enable them to shape their business policy in accordance with available funds, or to find more funds if necessary.

In a company the Secretary is usually answerable to the directors for the work of the Financial Department, and reports periodically to them, or to a **Finance Committee** appointed by the Board.

The following is a typical example of **Financial Return**, or Statement of Ways and Means, submitted to the Finance Committee of a company engaged in importing and general merchant business.

STATEMENT TO FINANCE COMMITTEE.

Dated 25*th Sept.*, 1923.

Resources.

	£	*s.*	*d.*	£	*s.*	*d.*
Cash in hand	52	14	6			
On Current A/c	1,149	5	4			
				1,201	19	10
On Deposit A/c				1,500	–	–
Bills Receivable, due Oct.	4,094	14	9			
due Nov.	3,552	3	5			
				7,646	18	2
Outstanding A/cs, due Oct.	142	15	10			
due Nov.	463	8	9			
				606	4	7
Investments				2,250	–	–

"Gracefield" shipment, due 15th Oct., approx. £3,000
"Marie Theresa" ,, 10th Nov., ,, 4,500
Burmah Contract: Progress Payment due 30th Nov., £550.

Commitments.

	£	s.	d.	£	s.	d.
Bills Payable, due Oct.	285	16	4			
due Nov.	340	14	8			
				626	11	–
Trade Creditors' A/cs, due Oct.	504	7	7			
due Nov.	861	12	6			
				1,366	–	1
Establishment Charges including Salaries (say) Oct.	190	–	–			
Nov.	190	–	–			
				380	–	–
Debenture Interest	-	-	-	–	–	–
Dividends	-	-	-	–	–	–

Our shippers at Tangier, Habib Jadid & Co., estimate their requirements for October purchases and shipments as follows:

Oct.	3	T.T.	Frs.	20,000	@ 50	say	£400
,,	10	,,	,,	20,000	,,	,,	400
,,	17	,,	,,	20,000	,,	,,	400
,,	24	,,	,,	20,000	,,	,,	400
,,	31	,,	,,	12,000	,,	,,	240
					(say)		£1,840

Both in the accounts of the company and all financial returns, Capital Receipts and Expenditure should be recorded separately from Revenue. When shares or debentures are issued a separate current account is usually opened at the bank, to which application, allotment and call moneys are debited, thus keeping receipts of capital quite distinct from revenue. It is convenient to extend the principle by drawing against this account for payments to vendors, contractors for extensions, and all capital expenditure, so that the credit side of the account shows how the capital has been applied.

The Balance Sheet.—Definition.—The balance sheet (B/S) of a business is a concise statement of its financial position at a certain date. It is usual to arrange the property of the firm, including outstanding accounts due from customers, etc., on the right-hand side of the balance sheet, headed "Assets"; and the debts owing by the firm on the left-hand side, headed "Liabilities."

A balance sheet is not merely a statement of assets and liabilities. In order to depict faithfully the financial position of the undertaking, items must be inserted in the balance sheet which are neither property nor debts. Such items as *Preliminary Expenses* and *Debenture Discount* are included among the assets in order to account for part of the amount shown on the other side for paid-up capital and debentures. Among the liabilities appear such items as *Reserve*, *Forfeited Shares*, *Share Premiums*, *Dividends due*, and *Profit and Loss A/c* (*Cr balance*), because they represent profits set aside instead of being distributed to the shareholders.

Liabilities and Capital.—It will be noticed that on the B/S of a joint-stock bank reproduced on p. 97, the amount of capital contributed by the shareholders, dividends due, and accumulated profits are totalled and shown quite apart from the bank's liabilities to depositors, etc ; whereas the B/S of a trading and manufacturing company shown on pp. 74-5 shows sundry creditors between capital and accumulated profits, and includes dividends due to preference shareholders with liabilities to creditors, although shareholders are not creditors, but members of the company.

The capital of a sole trader or a partnership firm is the excess in value of assets over liabilities. In a partnership B/S each partner's share of the capital may be shown in one amount, or a detailed statement may be given, showing the amount contributed by each partner according to the partnership agreement, *plus* or *minus* advances or withdrawals, profits or losses, interest and salaries (if any). Profits may also be set aside for Reserves and Sinking Funds.

The paid-up capital of a company remains unaffected by profits and losses.

If a trader's liabilities are greater than his assets, the trader is said to be **insolvent**. The B/S of an insolvent individual or firm ought to show the **Deficiency** on the assets side, to make the two totals agree. In the case of a company, the

amount of the share and loan capital remains on the liabilities side at the nominal value (without discount or premium) contributed, but if the company has lost money instead of increasing its resources, its B/S will show no reserves, and the accumulated losses must appear on the assets side as a *Debit Balance of Profit & Loss A/c*

Grouping of Assets.—Assets are usually grouped in such a way as to separate property which is more or less permanent from those debts and cash items which are immediately available for payment of liabilities. A clearer view of the position may also be obtained by "marshalling" the assets in order of *liquidity*, those which may be most easily realized being placed at one end of the list, and the fixed or permanent assets at the other. Trading and industrial concerns usually show fixed assets first and cash last ; banks and other financial houses show cash as the first item on the assets side.

Fixed or Permanent Assets.—Referring to the B/S shown on pp. 74-5 : Land, Buildings, Plant and Fixtures may be classed as fixed assets. They constitute the company's permanent equipment used in carrying on the undertaking, and are not for sale.

Intangible Assets.—Goodwill and Patents are also of a permanent nature, but they are not material goods. The value of goodwill and trade marks depends upon the success of the undertaking, and cannot be ascertained except by sale. The same applies to patents, in so far that an unsuccessful patent would not be likely to find a purchaser. In a properly drawn-up balance sheet the value of these "intangible assets" is shown separately, and not added to fixed assets as "Plant and Patents," or what not, for such a mixture of items betrays an attempt to conceal the true facts, or to make the realizable assets look as if they were worth more than they are. Special Jigs and Tools, Templates, Working Drawings and Patterns partake of the nature of intangible assets to the extent that they are assessed at their productive, rather than their saleable value.

Circulating Assets.—Stock-in-Trade, Sundry Debtors on open accounts, Bills Receivable, and Cash are included in this group, because it is their function to circulate in and out of

the business. They are the circulating capital of the business, referred to on p. 63. Money items which are immediately available for payment may be further classified as

Liquid or Fluid Assets.—Cash in hand and on current account at the bank is the most liquid form of property, and is therefore shown first in the balance sheets of banks—except that of the Bank of England. Cash on deposit, Bills Receivable (if they can be discounted), and Marketable Securities all form an immediate reserve of fluid capital which may be released at once or at short notice. Bills may be discounted before they fall due, and investments pledged as security for a loan, or sold.

Fictitious Assets.—Under this heading may be mentioned Preliminary Expenses, Debenture Discounts, etc. In the balance sheet shown on pp. 74-5 the only fictitious asset (Issue expenses) is deducted from the only fictitious liability (Premium A/c) on the liabilities side.

Uses of the Balance Sheet.—A balance sheet is of use to the Proprietors, in giving them a clear view of the financial position of their business. Holders of shares or debentures in a company are legally entitled to receive a statement in the form of a balance sheet (see pp. 12 and 18). A B/S is also of interest to other firms, who may require to see a copy of it to help them to judge whether they would be justified in dealing on a credit basis.

How to read a B/S.—In examining a balance sheet, five important questions arise in the mind of the expert, whether he be a proprietor in the business, or one of its creditors :

(*a*) What are the liabilities ?
(*b*) What proportion do liabilities bear to tangible assets ?
(*c*) What funds are immediately available ?
(*d*) How are the assets valued ?
(*e*) Has progress been made since the last balance sheet was prepared ?

It is not sufficient to know that the business is solvent. A prospective creditor is interested to know to what extent the firm is already committed to other creditors (Trade Creditors, Loan A/c, Overdraft, etc.), and what liquid funds are available for immediate payment of liabilities. The

BALANCE SHEET OF A TRADING

BLACK, WHITE & CO., LTD., LONDON,

Balance Sheet of the Company,

LIABILITIES.

CAPITAL £700,000. ISSUED—				£	s.	d.	£	s.	d.
225,000 7½ per cent. Cumulative Preference Shares of £1 each				225,000	0	0			
375,000 Ordinary Shares of £1 each				375,000	0	0			
							600,000	0	0
Share Premium Account				10,000	0	0			
Less Share (New) Issue Expenses Account				10,000	0	0			
							—	—	—
Sundry Creditors, including Preference Dividend to 31/12/22							300,856	7	3
Reserve Fund							114,628	4	9
PROFIT AND LOSS ACCOUNT, BALANCE 18/12/1921				28,946	18	11			
PROFIT AND LOSS ACCOUNT to 18/12/1922, after providing for Taxation, Directors' Fees, and Managing Directors' Remuneration				60,046	19	1			
				88,993	18	0			
Less Preference Dividend to December 31st, 1922	£13,764	11	6						
,, 10 per cent. of Balance of Net Profits carried to Reserve Fund	4,628	4	9						
				18,392	16	3			
				70,601	1	9			
Less Interim Dividend paid on 275,000 Ordinary Shares				6,875	0	0			
							63,726	1	9
							£1,079,210	13	9

We have audited the Balance Sheet of BLACK, WHITE & CO., LIMITED, all the information and explanations we have required. In our opinion correct view of the state of the Company's affairs according to the by the London books of the Company.

May 4th, 1923.

AND MANUFACTURING COMPANY.

MANCHESTER, AND CARDIFF.

December 18*th*, 1922.

ASSETS.

	£	s.	d.
Freehold Land and Buildings - - - - - -	39,847	18	6
Leasehold Premises (*less* Depreciation) - - -	18,121	10	4
Plant and Machinery (*less* Depreciation) - - -	17,620	0	7
Fixtures and Furniture (*less* Depreciation) - - -	8,944	9	6
Goodwill and Patents - - - - - - - -	149,640	2	2
Stock-in-Trade as certified by two Managing Directors	246,248	1	6
Sundry Debits outstanding - - - - - - -	371,853	4	2
Cash and Bills in hand and at Bank - - - - -	61,266	17	11
Government Securities—at cost, including £90,000 Treasury Bills - - - - - - - -	104,544	8	0
Investments—			
White & Green, Limited. Shares at cost - -	50,000	0	0
(Sundry) At cost or under - - - - - -	11,124	1	1

ALBERT BLACK, } *Directors.*
ERNEST BLACK, }

£1,079,210 13 9

dated December 18th, 1922, and above set forth; and have obtained such Balance Sheet is properly drawn up so as to exhibit a true and best of our information and the explanations given us, and as shown

REDD, GRAY & GOLDING, *Chartered Accountants.*

B/S on pp. 74 and 75 shows the company in question to be in a very strong position, as the amount of cash, bills, and Government securities is more than half that due to creditors (and pref. shareholders), and in addition the value of book debts and stock is shown to be enormous in proportion to the other items of the B/S.

The basis on which fixed assets, stock and investments have been valued should be stated opposite the respective items, or in the **Auditors' Certificate** given with the B/S. In particular, the value of leasehold property, buildings and equipment should show an allowance for depreciation or **Amortisation**;[1] or replacement may be provided for in a special reserve a/c or **Sinking Fund**, constituting a fictitious liability increased year by year out of profits. Profits set aside for replacements are often invested in securities or on deposit with an insurance company in order that the necessary money may be available when the time comes to replace the lease, machinery or fixtures.

A comparison of two or three consecutive balance sheets may reveal much information which could not be gleaned from only one of them. Profits may be made to appear on paper, though they do not exist in reality, by failure to allow for depreciation and replacements, by giving inflated values to such intangible assets as goodwill, patents or "improvements," or by over-valuation of stock, or depletion of reserves. A careful comparison with past balance sheets may reveal such defects, and, if they do not exist, then the amount of net profit may greatly influence the reader in forming his opinion.

Of such importance is the balance sheet in depicting the progress of a business, as well as the present state of its affairs, that accountants in some offices have standing orders to

[1] Amortisation in this sense means writing down the value of an asset from year to year, until by the time the thing has to be scrapped it appears in the books at no more than its scrap value.

prepare **Interim Balance Sheets** at monthly or even weekly intervals. On the Continent the system of columnar records known as **American Bookkeeping** has a wide vogue, owing to the advantage it possesses of revealing the progress of business. By its means the proprietor is able to ascertain, at any given date, the amount of his debtors, creditors, purchases, sales, expenses, cash, etc.

Double Account System.—The balance sheets of public utility companies (see p. 172) are published in the form of two accounts, called respectively "Capital A/c" and "General Balance Sheet." The Capital A/c shows on one side the amounts of capital received from the stockholders and on the other side the capital expenditure, *e.g.* permanent way, rolling stock, etc.—in the case of a railway. Depreciations are charged to the General Balance Sheet, the capital receipts and expenditure in the capital a/c being given at their full amount, plus additions during the period under review.

Insurance.—Another matter within the province of the financial department is Insurance.

In an importing or exporting business the responsibility for insuring cargoes naturally devolves upon the shipping or marine insurance department. The financial manager will, however, attend to insurance against all other risks, such as:

Liability:	Employer's Liability. Third Party: (*a*) Horse Drivers' risks, (*b*) Motor Car risks, (*c*) Lifts, Cranes and Hoists, (*d*) Premises risks.
Business Risks:	Fidelity Guarantee. Contract do. Excess Bad Debts.
Property:	Fire. Burglary. Plate Glass. Carriage. Baggage.

[1] The Paymaster usually assists the Cashier in regard to State Insurance, sick fund, etc., for employees and workmen.

The necessity for insuring against Employer's Liability is obvious when it is realized that under the Workmen's Compensation Act, 1906, an employer is liable for personal injury to anyone in his employ whose remuneration does not exceed £250 *p.a.*, provided such injury arose out of and in consequence of the employment, and the schedule of compensation makes the employer liable for half the earnings of an employee during incapacity. Under an Employer's Liability policy the assured is usually indemnified against his legal liability under the Common Law, the Fatal Accidents Act of 1846, the Employer's Liability Act of 1880, and the Workmen's Compensation Act of 1906.

Third Party Liability insurance protects the insured against the risk of an action being brought against him for personal injury or death caused to a person not in his employ. Firms owning vehicles, passenger lifts, or cranes working over the footway find it particularly necessary to insure against such risks.

The object of Fidelity Guarantee insurance is to obviate the inconvenience of requiring employees in a position of trust to ask their private friends or relatives to guarantee their honesty. Persons of the highest respectability may be unable to find anyone willing to sign a **Fidelity Bond**, or they may forego a valuable appointment from a repugnance to place their relatives or friends under the obligations involved in such a bond. This obstacle is entirely removed by fidelity insurance; the bond of an insurance company provides security as good as or better than private suretyship; the questions which the employee is required to answer on the Form of Proposal are searching, but no honest person could object to them; and the system encourages honesty and care in money matters, for the premium depends upon the nature of the employee's duties, the amount of cash under his control, and the system of check in force. Collective policies may be adopted to cover a number of employees.

Excess Bad Debt insurance is another form of guarantee insurance, with which may be grouped policies guaranteeing repayment of Loans and Mortgages, performance of Contracts, Capital Issues and claims arising from Forged Transfers.

In the case of Fire policies, premiums are fixed on the assumption that the proposer is asking the company to protect him to the extent of the whole of the property referred to in the policy, and not an indefinite part of it. To insure goods worth £1,000 for only £500 is unfair to the insurer, as it only allows him half the premium which is his due, but makes him liable for partial loss in respect of the whole of the property. In Marine Insurance this is not so (see p. 220), and the defect may be remedied in a fire policy by the insertion of an **Average Clause.** Where the sum insured is declared to be "Subject to Average," the insured is considered to be his own insurer for any amount by which the sum insured may fall short of the value of the property at the breaking out of any fire, and must bear a rateable share of the loss accordingly. This is known as the *Pro Rata* Condition of Average.

Where goods are deposited in a number of different warehouses or places the total value may be insured against fire under one policy, known as a **Floating Policy.** The value of goods stored at each place may vary, but so long as the total value does not exceed the sum assured, the goods are fully insured Such policies are usually subject to average, and contain an additional clause known as the **Second Condition of Average**, stating that if any of the property included therein is covered by a more **Specific Policy**, *i.e.* one relating to a part of the property only, such part shall not come under the protection of the floating policy, except only as regards any excess of value beyond the amount of the specific policy.

The **Three-fourths Condition of Average** is applied to Farming Stock policies. A policy containing this special condition is subject to average provided only that the sum insured amounts to less than three-fourths of the value at the breaking out of any fire.

EXERCISE 3.

1. What is Goodwill? How is it that the published balance sheets of many prosperous companies do not include "goodwill" as an item? (S.A.tpc. III.)

2. How is Goodwill affected by (*a*) advertising; (*b*) management? (S.A.tpc.III.)

3. What factors should determine a suitable site for (*a*) a factory; (*b*) a wholesale warehouse; (*c*) a retail shop? (S.A.tpc.II.)

4. What considerations govern the amount of capital required to carry on a business properly? (S.A.tpc.II.)

5. (*a*) How far may borrowed capital be employed in business with safety? (S.A.tpc.II.)

(*b*) Do you consider interest on capital to be a part of profit, or a charge against profits? Give reasons for your answer. (S.A.tpc.II.)

6. What is Capital? Define six kinds of capital which might be mentioned on the B/S of a limited company.

7. Some classes of companies (*e.g.* banks and insurance offices) often have a very large uncalled capital. What are the advantages and disadvantages of this arrangement? (S.A.tpc.III.)

8. What is meant by issuing capital "at par" and "at a premium"? And what is meant by forfeiting shares? State whether you consider share premiums and money paid by shareholders who have surrendered their shares should be regarded as a profit, and give reasons for your answer.

9. Why do companies issue share and loan capital of different classes? Define "watered capital."

10. What is meant by a Statement of Ways and Means? Make one which might be applicable to any sort of business with which you are acquainted, and explain how it could be used. Figures need not be inserted.

11. The assets shown on a B/S are said to be "grouped" and arranged in order of "liquidity." Explain this.

12. A manufacturer has before him a copy of the latest directors' report and accounts of the A. Co., Ltd. He is desirous of satisfying himself that it would be reasonable for him to give them credit up to £500. To what points in the report and accounts should he direct his attention? (S.A.tpc.III.)

13. What insurances ought to be effected by a company or municipality having offices and works ? (C.I.S.Inter.)

14. (*a*) What do you understand by Fidelity Guarantee Insurance ? (D.C.C.II.)

(*b*) A fire insurance policy is declared to be "subject to average." What does this mean ? (S.A.tpc.III.)

15. Explain five of the following expressions :

(*a*) One Man Company.
(*b*) Working Capital.
(*c*) Terms of Issue.
(*d*) Scrip Certificate.
(*e*) Inscribed Certificates.
(*f*) Company limited by Guarantee.
(*g*) Minimum Subscription.
(*h*) Transferee. (U.E.I.sw.Adv.)

16. Write a letter to a customer whose account is long overdue, and who, with evident insincerity, has alleged defectiveness of the purchased goods as an excuse for non-payment. (C.I.S.Inter.)

CHAPTER IV.

BANKING.

Finance.—Finance has been defined as "the science of income and expenditure, whether public or private." The control of capital is an essential part of Finance, for expenditure is not possible without something to spend, and in government and municipal as well as business undertakings ways and means have usually to be provided in advance of revenue.

From the earliest times capitalists have employed their surplus wealth with profit to themselves by investing it. In modern times a distinction is drawn, however, between (*a*) the **Moneylender**, who exploits the individual's personal monetary difficulties, and (*b*) the **Financier**, who assists commerce and industry with his own capital and as intermediary between investors on the one hand and business undertakers on the other.

Thus loans may be divided into two categories: **productive and unproductive** loans; the former belong to finance, the latter to **usury**. Moneylending has been the subject of much legislation, and laws have been passed in both France and Germany to limit the rate of interest which a lender may ask. Such restrictions have been much criticized, but it must be admitted that they affect the usurer more than the financier, for it is the man in need and at his wits' end who may be persuaded to borrow on unconscionable terms, not the successful man of business. Businesses of an uncertain nature, which

could only borrow at high rates of interest, are financed principally by means of the proprietors' or share capital.

The business of Banks, Bill Brokers, Discount and Loan Houses, Accepting Houses, Insurance Companies, Building Societies, Land Companies, Trust Companies, and Stockbrokers, is *financial business,* since it consists of investing capital for productive purposes.

What is a Bank ?—The services rendered by the banks of the present day are so numerous that it is difficult to define exactly what a Banker is. Banking consists mainly of borrowing money and credit balances, in order to gain profit by lending or investing them at a rate of interest higher than the cost of borrowing. The feature of banking which distinguishes it from any other financial business is that the banker borrows from the general public, by receiving deposits which he undertakes to pay back on demand or at short notice, as may be agreed. His position thus involves special responsibility towards society as a whole. With the strengthening of the banking system by amalgamation and expansion, the public has come to place implicit trust in the wisdom of the large banking companies to use the money entrusted to them rightly, and in their ability to pay it back when required.

Borrowing is an essential part of banking, and the legal relationship existing between the banker and his depositors is that of debtor and creditor. If he were employed by his customers expressly as custodian of their property, he would have to make a charge for taking care of their money instead of giving interest or services for the privilege of using it.

The banker is also a supplier of legal tender. As debtor to his customers he is legally obliged to pay what he owes in legal tender if he is called upon to do so, the chief demands on the coin and notes kept in his till being made by traders for the payment of wages and private individuals for

personal expenditure. Only a small part of the banker's deposits, however, are received in hard cash, the vast majority being paid into the bank in *cheques and bills drawn on or domiciled at other banks.*

The funds of which the banker thus gains control are invested by him to earn revenue for the bank. An examination of the Bank Balance Sheets shown on pp. 97 to 99 will show that a part of this money is invested in marketable securities, but most of the funds of the large banks are devoted to providing **Banking Facilities** to traders.

In order to define a bank in such a way as to exclude other financial institutions, it is necessary to distinguish between banking facilities in the British sense and what should be called by the wider name of financial facilities. The former are properly limited to those which can be provided without a "lock-up" such as would impair the liquidity of funds and deposits at call and short notice. For this reason the usual practice of bankers here is to confine their advances as a rule to a currency not exceeding a few months. By financial facilities[1] we mean, generally speaking, those which would involve a longer currency than this.

The Origin of Banking.—History bears no record as to when and where the first banks came into existence. There were bankers in Babylon 600 B.C., who received deposits on which they paid interest, and lent money on the security of goods or written promises. The word "bank" is derived from the Italian *banco*—bench or counter, whence it may be traced further back to the tables (*mensae*) which the Roman lenders and money-changers set up in the Forum 300 B.C., and the tables (τράπεζα) of their Greek contemporaries, who appear to have started business about a hundred years later.

[1] According to the Report to the Board of Trade by a Committee appointed in 1916 to investigate the Question of Financial Facilities for Trade.

The first proper banking establishments known in Europe were the *Bank of Venice*, founded in 1171, the *Bank of Barcelona*, in 1349, the *Bank of St. George* at Genoa in 1417, the *Bank of Amsterdam* in *1609*, and *Bank of Hamburg in 1619.*

These early banks were formed *for the purpose of raising* public loans, the contributors receiving certificates on which interest was paid. They started as **Deposit Banks**, but subsequently developed into **Discount** and **Note-issuing Banks**, increasing the scope of their operations by issuing *promises to pay* in the shape of bank notes in exchange for bills entrusted to them for collection, or cash deposits. It is noticeable that all the early banks were established at seaports, where the different kinds of foreign coinage in the hands of merchants, and the requirements of international trade, made money-changing and the collection of foreign bills an essential feature of their business.

The issue of notes was the first means devised by bankers for lending their credit [1] in addition to coin. This function of bank notes has now been superseded by cheque payments and the increasing use of trade bills, in consequence of which bankers now lend their credit by allowing their customers overdrafts or loans, and arranging foreign credits ; and the idea of credit-lending has been still further extended in the custom of modern banks and so-called "accepting houses" to guarantee their customers' trade bills by acceptance or endorsement, as well as issuing bills of their own.

The Goldsmiths.—Until the establishment of the Bank of England the largest moneylenders and financiers in this country were the Lombards.

The Lombards were originally a race of warlike people inhabiting Northern Germany and Scandinavia, who took the name of Lombard or Langobard (*i.e.* long-beard) from the shape

[1] See *Principles and Practice of Business*, p. 264.

of their favourite long-hafted, beard-shaped weapons of war. The Lombards gradually emigrated southwards, until, in the sixth century, they settled in a province of Italy known as Lombardy after them.

It was doubtless their contact with the Jews who had settled in Italy, and the Florentine merchants, that taught the Lombards the art of trading and money-lending, for which they subsequently became so famous throughout Europe. Towards the end of the twelfth century we find them trading as goldsmiths and merchants in France, Germany and England, the *rue des Lombards* in Paris and *Lombard Street* in London having been named after them. They introduced the business of **pawnbroking** into Northern Europe, and the sign they adopted, consisting of three golden balls or purses, was the emblem of St. Nicholas, the patron saint of citizens, merchants and mariners. It was the Lombards (or possibly the Italian merchants before them) who invented double-entry bookkeeping, known all over the Continent to this day as "Italian bookkeeping." The Italian words *cassa, debitore, creditore, conto, sconto,* and many others have become, in modified form, a part of the commercial jargon of all countries, and the symbols £ *s. d.* (*lire, soldi, denari*) are derived from the same source.

Before the creation of the National Debt merchants either kept their cash in strong boxes on their own premises or entrusted it to the care of the goldsmiths, who kept what were known as "running cashes" or current accounts. They allowed interest on deposits, and issued transferable receipts known as **Goldsmiths' Notes** payable on demand, or agreed to meet bills drawn upon them by the depositor up to the amount of the deposit. As it was unlikely that every depositor would demand full repayment on the same day the goldsmiths were able to lend part of the cash at interest. They could also lend credit in the form of notes or loan accounts. Thus by the middle of the seventeenth century the goldsmiths' shops became to all intents and purposes **private banks**.

The Bank of England.—The idea of an English **national**

bank was frequently mooted during the reign of William III., and eventually took shape in the hands of a Scotsman named William Paterson, a London merchant named Michael Godfrey, and the financier Montagu.

It was established in 1694, under an Act of Parliament authorizing the raising of a loan to the Government of £1,200,000 by voluntary subscription "towards carrying on the war with France." The subscribers were incorporated under the style of the "Governor and Company of the Bank of England," and the Bank was entitled to receive interest on the loan at the rate of 8% *per annum*, and a further sum of £4,000 *p.a.* towards the cost of administration. The Bank was authorized to issue notes up to the amount of £1,200,000 lent to the Government, to receive deposits, to deal in bills of exchange, and to make advances on security. The Bank thus became the first serious competitor of the goldsmiths, who attempted to break it by presenting notes to the value of £30,000 all at once, but the attempt was unsuccessful.

The original charter was for a period of eleven years, at the expiration of which time it might be withdrawn on repayment of the Government Debt. But it was renewed from time to time, new capital was raised and lent to the Government, and in 1816 the capital of the company amounted to £14,553,000, at which figure it now remains, and on which the stockholders receive dividends. Further sums were lent to the Government, until in 1833 the permanent Government Debt to the Bank was reduced by one-fourth to £11,015,100, at which it now stands.

Banking in England before 1844.—The history of banking throughout the eighteenth and nineteenth centuries is a succession of financial crises and "runs" on the banks. The course of legislation shows that the blame for these crises was put mainly upon the country banks, which issued notes recklessly, without sufficient backing in coin and

bullion. The ultimate cause was, however, the lack of a proper Banking System such as exists to-day. While the growth of industry and commerce resulted in an increasing number of payments, the production of gold and silver did not increase fast enough to supply the need of additional currency. Bankers supplied the need by issuing notes payable in coin, or in Bank of England notes which in their turn could be exchanged at the Bank of England for coin. The temptation to earn interest by lending pieces of paper was irresistible.

An Act of 1708 gave the Bank of England a partial monopoly by prohibiting any other body of persons exceeding six in number from issuing bills or notes payable on demand or at less than six months from the date thereof. It did no good, however, for it left the small banks free to issue as many notes as they liked.

The failure of the South Sea Company in 1720 caused a collapse of public credit which ruined many banks and goldsmiths, though the Bank of England managed to meet the run by paying out in small change until the panic had subsided.

In 1793 the declaration of war by France caused a general run on the banks, some 300 out of the 400 odd note-issuing establishments then existing in England having to suspend payments.

This was followed in 1797 by a suspension of cash payments by the Bank of England which lasted for twenty-four years. The reserve of the Bank had been grievously depleted by Government borrowings to pay for the incessant war with France, and had at last to be protected by the issue of a Privy Council Order, followed by the **Bank Restriction Act, 1797**, forbidding the Bank to pay coin for notes, and making payment in notes legally equivalent to payment in cash. Bank of England notes had not yet become legal tender, but the Act provided that they could be used to pay taxes, and the principal City merchants agreed at first to take them at their par value. Though cash payments were suspended, the issue of notes continued, the note issues of the country banks, which for

some time had been redeemable in coin or Bank of England notes, increased, and the amount of currency in circulation became greater than was necessary. The commodity, money, had lost its value as gold, because the notes were inconvertible, and as the notes became more abundant they naturally depreciated, *i.e.* the price of gold as measured by them increased. Being worth less, more were required than before to purchase foreign moneys; so in 1800 foreign exchanges moved against us; gold was then required for export; the possibility of restoring gold payments within the country became still more remote. The truth was presented to Parliament in a Report of the Bullion Committee of 1810, showing that only a restriction of note issues could improve the value of the currency, bring the exchanges back to par, and restore gold to circulation; and that "note issues should be regulated by reference to the foreign exchanges and the price of bullion." The report was rejected, but its truth was vindicated a few years later, when a succession of bad harvests prevented the farmers from meeting their commitments to the country banks, many of which were ruined and withdrew their notes from circulation. The force of circumstances thus brought about the very cure which the Bullion Committee had recommended. Being no longer in excess of the people's wants, the remaining bank notes recovered their value, and in 1821 gold was in circulation again.

In 1826 another Act was passed, allowing banks of more than six partners to be established outside a radius of sixty-five miles from London. From this time also the Bank of England was encouraged to establish itself in the provinces. There are now branches at Birmingham, Bristol, Hull, Leeds, Liverpool, Manchester, Newcastle, Plymouth, and in London.

In 1833 the Bank's monopoly of joint-stock banking was abolished, but no other banks were allowed to issue notes within the sixty-fives mile radius. It was after the passing of this Act that the largest banks of the present day were founded, the London and Westminster in 1834, the Union Bank of London in 1836, the London Joint Stock Bank and the London and County Bank in 1839.

The Bank Charter Act, 1844.—The issue of bank notes in England is at present regulated by the Bank Act brought in by Peel in 1844, with the object of securing the convertibility of Bank of England notes and gradually reducing the circulation of country notes.

The Bank of England was divided into two departments, *viz.* the Issue Department and the Banking Department, the former to deal only with the issue and redemption of notes, and the latter to deal with the other banking transactions. The Bank was empowered to issue notes amounting to £14,000,000 against securities of that value deposited in the Issue Departments, but any notes issued in excess of £14,000,000 were to be secured by gold coin and bullion and silver bullion.[1] Coin and bullion not required for immediate use were to be held in the Issue Department, against notes issued and transferred to the Banking Department, so that the till money held in the latter department consists of Bank Notes, which may be cashed at any time in the Issue Department, as well as gold and silver coin. The Bank was also compelled to purchase gold bullion in any quantity in exchange for notes at the rate of £3. 17*s*. 9*d*. per oz. Troy, and to pay out gold coin in exchange for notes at the Mint price of gold bullion, namely £3. 17*s*. 10½*d*. The difference between the Bank of England price and the Mint price, amounting to 1½*d*. per oz. Troy is called **Demurrage**, and is less than the loss of interest which a seller would incur if he took his bullion to the Mint and waited for it to be made into coin,[2] instead of getting notes for it at once from the Bank of England.

It was also laid down that no new bank of issue could be

[1] Silver bullion may be held in the Issue Department to an amount not exceeding one-fourth of the gold coin and bullion, but no silver bullion is now kept there.

[2] The British Mint makes no charge for coinage. So long, however, as the *market price* for gold exceeds the statutory Mint price, bullion brokers naturally sell at the market price.

established. Existing banks of issue were allowed to continue to issue notes, but in each case their issues could not exceed a maximum which was fixed by taking the average of the notes in circulation by each institution during the twelve weeks ended April 27, 1844. If any country bank should thereafter cease to issue notes, the Bank of England could be authorized by an Order in Council to increase the amount of the Securities in the Issue Department and issue notes against such Securities to the extent of two-thirds of the lapsed issue. A bank of issue which amalgamated with a bank within the sixty-five mile radius, or opened a branch there, or a banking partnership which adopted the joint-stock principle, had to forego its right of issue. The amount of notes issued by the Bank of England against securities—called the **Fiduciary Issue**—has thus increased from £14,000,000 in 1844 to £18,450,000 at the present day. The last increase was in August, 1903, but the Bank could obtain sanction (though it has not done so) to increase its fiduciary issue by a further £1,080,000 in respect of the then remaining provincial issues, the last of which lapsed in February, 1921, when the banking business of Fox, Fowler & Co., of Wellington, Somerset, was absorbed by Lloyds Bank.

The Bank of England is now therefore the only English bank allowed to issue notes. The notes are free of stamp duty, but the Bank has to pay a composition fee of £180,000 *p.a.* for exemption from stamp duty and for its other privileges.

The Bank Return.—In pursuance of the Act of 1844 a statement known as the Bank of England Return is made up every week at the close of business on Wednesday. It is passed at the meeting of the Court of Directors held on Thursday morning, is posted up in the Bank as soon as possible, and appears in the financial columns of the leading papers on Thursday evening and Friday morning.

BANK OF ENGLAND

An account pursuant to the Act 7 and 8 Vict., cap. 32, for the week ended on Wednesday, March 15, 1922.

ISSUE DEPARTMENT.

Notes Issued - -	£145,384,565	Government Debt -	£11,015,100
		Other Securities -	7,434,900
		Gold Coin and Bullion	126,934,565
	£145,384,565		£145,384,565

BANKING DEPARTMENT.

Proprietors' Capital	£14,553,000	Govt Securities -	£47,134,317
Rest - - -	3,617,681	Other Securities -	80,133,363
*Public Deposits -	18,936,311	Notes - - -	23,626,370
Other Deposits -	115,612,833	Gold and Silver Coin	1,840,876
7 Day and Other Bills	15,101		
	£152,734,926		£152,734,926

Dated March 16, 1922. E M HARVEY, Chief Cashier.

* Including Exchequer, Savings Banks, Commissioners of National Debt, and Dividend Accounts

The Bank Return is examined with interest by the directors of banks and other financial houses and by traders, who endeavour to read in it the tendency of available money to become more or less abundant, and the consequent likelihood of cheaper or dearer discount and loan rates in the near future.

Government Debt.—This item represents the permanent debt owing to the Bank by the Government, referred to on p. 87.

Other Securities amounting to £7,434,900, *plus* the Government Debt of £11,015,100, make a total equal to the Fiduciary Issue of £18,450,000.

Gold Coin and Bullion amount to the value by which the notes issued are in excess of the fiduciary issue.

Notes Issued.—The amount of notes issued increases and decreases automatically, according to the quantity of gold in the Issue Department. It is beyond the control of that department, since notes must be issued in exchange for gold, and gold must be paid out against notes. Gold not required for immediate use must be kept in the Issue Department, and the note issue correspondingly increased. Notes not in use outside the Bank are transferred to the Banking Department, and appear on the assets side of the Return under "Notes."

Proprietors' Capital is explained on p. 87.

Rest.—This is the Reserve A/c of the Bank, being accumulated profits. As dividends are paid on the 5th April and 5th October each year, "Rest" noticeably decreases, gradually rising again during the ensuing half-year. That *this item does not represent by any means all the accumulated profits may be appreciated from the fact that no mention* is made on the Return of the Bank's valuable premises in London and the provinces. The return or balance sheet may therefore be said to conceal a "secret reserve."

Public Deposits.—These are the deposits of Public Departments consisting of revenue from customs, excise and income tax, Post Office, moneys received for the Commissioners of National Debt, the Secretary of State for India, etc., and balances held available for payment of public services and interest on Government and other public stock administered by the Bank.

Other Deposits.—This item of the Return corresponds to the "balances of current and deposit accounts" shown on the balance sheet of any other bank. All the London Clearing bankers and many other banks and individuals have an account at the Bank of England.

Seven-day and other Bills are Bank Post Bills.[1]

Government Securities include Consol Certificates, War Loan, Exchequer Bonds, Treasury Bills, etc , the interest on which is guaranteed by the Government. It also includes "Ways and Means" advances to the Treasury for meeting expenditure when funds are low, as for example a month or two before the collection of income tax. Security for these temporary advances is given by the Government in "Deficiency Bills."

Other Securities are the Bank's other investments, including Indian, Colonial and Corporation Stocks, Bills Discounted, and Loans made against security.

Notes.—Since Notes not in circulation outside the Bank are held in the Banking Department, the **Active Issue** may be ascertained from the Return by deducting this item from "**Notes Issued.**"

Bank of England Notes may be regarded as warehouse warrants entitling the holder to delivery of gold on demand at the Issue Department.

[1] See *Principles and Practice of Business*, p. 235.

The Banking Department of the Bank of England, like any other bank or individual, cannot get gold out of the Issue Department without giving notes in exchange. The notes are cancelled in the Issue Department as the gold is delivered.

Gold and Silver Coin represents the till money kept by the Bank.

The Bank of England Reserve consists of the amount of Notes + Gold and Silver Coin in the Banking Department. The *Proportion* of the Reserve is expressed as the percentage which the Reserve bears to the total active liabilities (*i.e.* Public Deposits + Other Deposits + Seven-day and other Bills) of the Banking Department; on the date of the Return shown on p. 92 the proportion is seen to be $18\frac{15}{16}$%.

Development of Banking after 1844.—Viewed in the light of modern experience, the disappearance of country note issues appears not so much as a blessing in itself as an incident in the development of banking.

The crises of 1825 and 1837 were attributed to the over-issue of small notes by provincial banks, and legislators were bent on restricting note-issues. But these crises were also due to speculation in mining and railways, and after the passing of the Bank Act more financial crises occurred, in 1847, 1857 and 1866, necessitating on each occasion a **Suspension of the Bank Act** by Order in Council, whereby the Government permitted the issue of more notes against securities. In 1847 and 1866 the mere knowledge that the Government had intervened was sufficient to restore confidence, and it was not necessary actually to issue the additional notes; but in 1847 £2,000,000 worth of securities were transferred from "Government Securities" in the Banking Department to "Other Securities" in the Issue Department, and the notes issued against them added to the Reserve.

On the outbreak of war in 1914 the Currency and Bank Notes Act again suspended the Bank Act, that is to say, the Bank of England, and also any Scottish or Irish bank of issue, were temporarily authorized by the Treasury to issue notes in excess of any limit fixed by the law. The authority was not used, however, for the crisis was met by more effective methods, which will be explained later.

Before attributing all banking troubles to provincial note issues it should be remembered that private notes were only a portable form of bank credit. They have been superseded by the present system of cheques and acceptances payable against current accounts at the banks; yet the legislature has not attempted to limit the amount which a banker may write to the credit of his customers' accounts.

The strength of the modern banking system lies in the manner in which bankers employ the funds entrusted to them. The cash reserves of the leading English banks only amount to 10% or 15% of their liabilities, and part of such cash is in the form of balances at other banks or at the Bank of England. Most of the other assets may, however, be quickly turned into cash, as they consist principally of bills discounted, marketable securities which could be quickly realized in an emergency, and loans against realizable securities. Banks are profit-earning institutions, and the more lucratively they employ their assets the better should be the return to shareholders; but at the same time they hold a position of great responsibility towards the public, and their policy is therefore dominated by the rule that security and "liquidity" should come before mere earning of profits. The uncalled capital of the leading banks offers additional security to depositors, and the visible reserves of most of the banks range from 50 to 100 per cent. of the paid-up capital, whilst it may be taken as a certainty that where the reserve shown in a balance sheet is large, there is also a hidden or invisible reserve in the shape of writing down of assets on the chance of contingencies. The shareholders of chartered banks in the Colonies are liable in the event of a liquidation to payment of a further sum equal to the nominal amount of their capital.

Any bank having an issue of notes is usually fully responsible for such issue, quite apart from any system of uncalled capital, for the Act of 1858, which first permitted

banks to be constituted with limited liability, provided that the liability of the proprietors of note-issuing banks should remain unlimited as regards the repayment of notes. The proprietors of the Bank of England and the Bank of Ireland are not, however, so liable.

Bank Balance Sheets.—By the Companies (Consolidation) Act, 1908, every company being a limited banking company or an insurance company,[1] or a deposit, provident or benefit society, must make a statement of capital and of liabilities and assets before commencing business, and bi-annually as on 1st January and 1st July. This statement must be put up in a conspicuous place in the registered office and every place where the business of the company is carried on, and every member and creditor is entitled to demand a copy.

For many years the leading banks have also published **Monthly Statements**, but these ceased to be issued during the war of 1914-18. In 1920 the Treasury required the banks to make monthly statements based on the average of their weekly figures, and all the leading members of the Clearing House now issue a statement, the Bank of Liverpool and Martins Ltd., and the private firms of Coutts and Glyn Mills having been added to the list The form of statement has been rendered more uniform and more elaborate in certain points of detail than the form of half-yearly statement prescribed in the Act of 1908.

The object of the Government in requiring these statements to be prepared is doubtless to encourage them to maintain the high reputation for stability which British banking has enjoyed ever since the middle of the last century, and by requiring monthly statements based on average weekly figures, and containing more detail than formerly, fluctuations in the various items can be more closely followed, and reveal more clearly the progress of business. These statements, like

[1] But not companies to which the provisions as to annual statement of the Life Assurance Companies Acts 1870 to 1872 apply and have been complied with.

the Bank Return, are also useful indicators of the state of the money market, and as such render useful service to the Treasury as well as to the financial and trading community.

All the Clearing Banks, and many British-Foreign, Colonial and Foreign Banks issue copies of the half-yearly directors' report and balance sheet for publication in the

BALANCE SHEET OF ENGLISH JOINT-STOCK BANK.

London Joint City and Midland Bank Limited.

31*st December*, 1921.

LIABILITIES	£	ASSETS.	£
Capital Paid up, viz :		Coin, Bank and Currency Notes and Balances with the Bank of England -	59,989,012
2,869,079 Shares of £12 each, £2 10*s*. 0*d* paid	7,172,697½	Balances with, and Cheques in course of Collection on other Banks in the United Kingdom - - -	12,802,707
1,475,262 Shares of £2. 10*s* 0*d* each, Fully paid - - -	3,688,155	Money at Call and Short Notice - - -	11,651,496
	10,860,852½	Investments	
Reserve Fund - -	10,860,852½	War Loans (of which £428,067. 10*s* is lodged for Public and other Accounts) and other British Government Securities - -	55,365,178
Dividend payable on 1st February, 1922 -	684,234	Stocks Guaranteed by the British Government, Indian Government Stocks and Indian Railway Debentures - - -	213,821
Balance of Profit and Loss Account, as below	777,253	British Railway Debenture and Preference Stocks, British Corporation Stocks -	419,839
	23,183,192	Colonial and Foreign Government Stocks and Bonds - -	559,282
Current, Deposit and other Accounts -	375,117,092	Sundry Investments -	200,689
Acceptances and Engagements on account of Customers - -	19,848,321	Bills Discounted - -	72,118,034
			213,320,058
		Advances to Customers and other Accounts - -	176,779,261
		Liabilities of Customers for Acceptances and Engagements - - -	19,848,322
		Bank Premises at Head Office and Branches -	4,942,299
		Shares in Affiliated Banks, *less* part premium on Shares in this Bank issued in exchange -	3,258,665
	£418,148,605		£418,148,605

ABRIDGED BALANCE SHEETS

OF

SCOTTISH, COLONIAL, BRITISH-FOREIGN AND FOREIGN BANKS.

BANK OF SCOTLAND.

28th February, 1921.

LIABILITIES.	£	% of Total	ASSETS	£	% of Total
Capital	1,325,000	2 9	Cash and notes, etc	6,574,003	14 5
Reserve	550,000	1 2	Call money	2,195,705	4 8
Notes	4,328,175	9 6	British Government Securities	13,414,901	29 6
Acceptances	841,751	1 9	Investments	1,272,227	2 8
Deposits, etc.	38,103,337	84 1	Bills discounted	6,656,467	14 7
Profit balance	150,337	3	Advances	13,706,357	30 3
			Acceptances	841,751	1 9
			Premises, etc	637,189	1 4
	45,298,600	100 0		45,298,600	100 0

NATIONAL BANK OF EGYPT.

31st December, 1920.

LIABILITIES	£ E	% of Total	ASSETS.	£ E	% of Total
Capital	2,925,000	4 5	Cash	3,574,529	5 5
Reserves	2,047,500	3 1	Treasury Bills and investments	46,289,568	71 3
Notes in circulation	37,254,308	57 4	Loans at call	1,326,000	2 0
Total deposits, etc	21,264,433	32 8	Advances	10,964,118	16 9
Cheques and Bills payable	258,000	4	Bills, etc	1,775,939	2 8
Acceptances	714,668	1 1	Acceptances	714,668	1 1
Profit balance	489,805	7	Premises, etc	308,892	·4
	64,953,714	100 0		64,953,714	100 0

THE BRITISH OVERSEAS BANK, LIMITED.

31st October, 1920.

LIABILITIES	£	% of Total	ASSETS	£	% of Total.
Capital	2,000,000	38 3	Cash	695,710	13·4
Current, deposit and other accounts	1,401,899	27 0	Money at call	2,025,499	39 0
Acceptances	1,621,148	31 0	Balances abroad	318,126	6 1
Profit balance	199,745	3 7	Investments	132,162	2·5
			Bills	117,321	2 2
			Advances	212,166	4 0
			Acceptances	1,621,148	31·0
			Preliminary expenses	39,016	7
			Premises	61,644	1 1
	5,222,792	100 0		5,222,792	100 0

Swiss Bank Corporation.

31*st December*, 1920.

LIABILITIES.	Frs.	% of Total	ASSETS.	Frs	% of Total.
Capital - -	120,000,000	10 1	Cash, etc. - -	54,264,375	4 6
Reserves - -	31,000,000	2 6	Loans at short dates	18,587,575	1 6
Fixed deposits -	126,308,550	10 6	Investments - -	33,126,947	2 8
Current accounts, etc - -	641,719,959	53 9	Current accounts -	559,202,375	47 0
Due to other banks	161,748,659	13 6	Bills receivable -	332,445,125	27 9
Bills payable and acceptances -	94,714,222	7 9	Due from banks -	182,573,915	15 3
Pension fund -	—	—	Premises, etc. -	9,979,177	
Profit balance -	14,688,099	1 3			
	1,190,179,489	100 0		1,190,179,489	100 0

ABRIDGED BALANCE SHEET OF DISCOUNT COMPANY.

Alexanders Discount Company, Limited.

31*st December*, 1920.

LIABILITIES.	£	% of Total	ASSETS	£	% of Total
Capital - -	550,000	2 7	Cash - - -	448,111	2 2
Reserve - -	270,000	1 3	Investments - -	1,818,289	8 8
Deposits - -	17,196,230	83 9	Bills discounted -	18,063,471	88 1
Bills re-discounted	2,255,865	11 0	Advances - -	190,427	9
Rebate on bills -	175,881	·8			
Profit balance -	72,322	3			
	20,520,298	100 0		20,520,298	100 0

daily press. Those of the large banks frequently occupy as much as half a page of the newspaper, and are read eagerly by all business men interested in the money market, and by depositors and shareholders of the banks. The interest that such a report and balance sheet awakens is a powerful means of advertising the bank, and gives prominence to its liquid resources and all those features which inspire confidence in the public mind. The newspapers sometimes publish separate monthly balance sheets, or the contents of the monthly statements are given together in a short table. The following is an interesting example,[1]

[1] Taken from *The Stock Exchange Gazette*.

for it shows the deposits of the clearing banks for April, 1921, and the percentage which each class of assets bears to active liabilities :

LIQUIDITY OF LEADING BANKS.

In the following table we give the ratio to current, deposit and other accounts of the chief assets of ten of the leading institutions as indicated by the weekly average figures for April, 1921

	Deposits, etc.	Ratio to Current, Deposit and Other Accounts.					
		Cash	Balances with Other Banks, etc.	Short Money	Investments	Discounts	Loans and Advances
	£	%	%	%	%	%	%
B of Liverpool and Martins	76,996,000	11 3	2 8	7 5	18 7	8 1	54 9
Barclays	320,550,000	11 1	2 6	6 0	17 5	17 1	49 3
Coutts	19,093,000	8 1	2 5	13 7	24 6	18 6	39 0
Glyn Mills	21,524,000	12 3	4 8	15 4	28 4	5 0	40 1
Lloyds	326,754,000	11 2	3 0	4 6	20 2	20 5	44 3
L. C. W and Parr's	296,555,528	10 2	2·8	6 1	18 2	20 8	45 8
L. J C and Mid	355,537,263	14 9	3 2	4 0	14 5	13 4	54 0
National	42,029,000	12 6	·4	18 8	32 1	7 5	42 2
Nat Prov. Union	259,276,000	10 6	2 7	4 7	19 9	12 2	54 5
Wms Deacons	33,404,000	11 7	4 4	4 6	13 4	6 5	66 2
Total	1,751,718,791	11 7	2 9	5 7	18 5	15 9	49 7

Services of the Banks.—*Operations on Current Account.*—Money deposited on current a/c is lent to the banker on the understanding that the depositor may withdraw the whole or part of the amount at any time, without notice. The London banks grant no interest on current accounts, but they make no charge for working the account, provided the customer maintains a minimum balance of sufficient amount (usually £50 or £100) to be remunerative to the bank.

On the Continent and, by arrangement, in some provincial places, interest is allowed on current accounts, and customers are charged commission on "turnover" (*i.e.* withdrawals).

By depositing his money on current a/c the customer is relieved of the anxiety of keeping a large amount of cash on his premises, and secures the great advantage of having

the amount of cheques, bills, etc., due to him collected and placed to the credit of his account, the balance of which is held at his disposal to draw cheques on the bank and domicile his acceptances and promissory notes with the bank for payment [1] in the same way as cheques are paid.

Coupons and Securities.—A bank will buy or sell securities in the London or foreign markets on a client's behalf, and hold certificates and coupons in safe custody. The banks employ their own stockbrokers, with whom they share commission.[2]

A holder of shares or stock may arrange to have dividends or interest paid direct to his bank instead of receiving the warrants at his private address. Coupons and "drawn" Bonds (see p. 40) are usually negotiated and collected through the banks, as it is a great convenience for the holder of bearer bonds to be able to hand them over to his banker with instructions to detach and collect the coupons at the proper place as they fall due, and watch the lists of drawings.

Issue and Transfer Departments.—Many of the London banks undertake the clerical work connected with the issue of stocks and shares, and act as Registrars for public bodies and companies. The charge for issue work usually takes the form of a commission, and for transfers the bank receives either the transfer fees or a fixed annual sum as remuneration.

Standing Orders.—Among other current account services may be mentioned the execution on behalf of clients of Standing Orders to pay subscriptions to clubs, charitable institutions, etc., at regular intervals, the arrangement of

Bail Bonds and Guarantees, and the holding of Securities and *Documents in Escrow*,[3] whereby the banker acts as a useful intermediary between contracting parties, and the services of the

Intelligence Department, which are at the call of the bank's clients. Information on the credit and standing of

[1] See *Principles and Practice of Business*, p. 226.

[2] At the present time (1922) the bank and the broker take half each.

[3] A deed is called an *Escrow* when it is delivered subject to a condition, and is not to take effect if the condition is not fulfilled.

companies, firms and individuals at home and abroad is supplied at the request of customers, and in some cases the work of the department extends to collecting information on political, commercial and financial conditions in all parts of the world, and studying the influence of such conditions on individual transactions.

Custody of Valuables.—Clients may also find it useful to entrust documents and valuable articles of property such as jewellery, plate, furs, etc., for safe custody in the safes and special store rooms of the banks.

Deposit Accounts.—Deposits which are withdrawable at notice are entered on what are known as Deposit a/cs, and always yield interest. Notice of withdrawal is usually seven days, but it may be a fortnight, a month, or any length of time agreed between the banker and his customer.[1] The London Banks allow interest on Deposit A/cs at the official **Bankers' Deposit Rate**, which fluctuates with it from time to time (see p. 131).

On the Continent, and at some provincial banks, the rate of interest is a matter for agreement with customers, and it may be increased or reduced according to the banker's need to encourage depositors to lend him their money. But customers are warned of any decrease in the deposit rate, to enable them to terminate the contract and withdraw their money if they do not consent to the revised rate.

While taking care to maintain the required minimum balance on current a/c, the trader has no desire to leave a large sum of money, which could earn interest, lying idle. Surplus funds which will be required later, but are not needed for immediate use, may profitably be transferred from current a/c to deposit a/c, a withdrawal back to current a/c being made when ready money is again in request.

Acceptances and Engagements on account of Customers.—Bankers are willing, by arrangement, to accept bills drawn

[1] The working of Current and Deposit A/cs, and the documents used in connection therewith, are fully explained in *Principles and Practice of Business*, chap. 7.

on them by their customers.[1] These bills may be discounted in the open market at the specially low rates charged for "bank bills," and thus provide a means of raising money as effective as a direct loan. Naturally the customer must engage to put the banker in funds before the bill falls due, so that the banker's liability to honour his acceptance is supported by a corresponding asset shown on the other side of the B/S as "Liability of Customers on Acceptances, etc., as per contra." Such engagements may also include credits authorizing the drawing of bills, as explained on p. 296. Endorsements, though usually included in the same item, belong to a slightly different category, for an endorser's liability is only contingent on the drawee's failing to accept or pay it.

Discounting.—Reference to the table on p. 100 will show that for the period under review 15·9 % of the clearing banks' deposits was invested in Bills. The most desirable features of bills of exchange as an investment are (*a*) their maturity at a fixed date from which the parties may be held liable if the bill is not paid, and (*b*) the probability that if a bill is drawn for value received by the drawee the latter will have the means to pay it when it falls due.

Genuine **trade bills** are drawn for goods, which will eventually be disposed of and turned into money.

In the case of **bank bills** or "fine bills," including bills drawn under bankers' credits, bankers' acceptances, and any bill bearing the signature of a bank or financial house of undoubted standing, the question of security does not arise. Bankers exercise caution, however, in regard to all other bills, and if a private individual sought to discount a bill he would probably meet with a refusal, as without some evidence of a definite trading relationship between the parties, the banker would infer that the document was of the class of accommodation bill, vulgarly known as "**Kites**";

[1] See chap. XI.

or "Windmills," *i.e.* a bill drawn ostensibly for value, but actually created for the sole purpose of raising money by discounting it. But these must not be confused with Accommodation bills drawn under bankers' credits (see p. 152), which are as good a security as any other bank paper.

Whereas bankers have at their disposal very accurate information regarding all inland firms drawing or accepting bills, they are not able to watch foreign business quite so closely. It is therefore more difficult for them to detect accommodation paper drawn on overseas firms, which may be drawn against imaginary shipments, or refer to shipments which may exist, though their value is grossly exaggerated.

Promissory Notes arising out of genuine transactions can be discounted in the same way as bills of exchange. A banker is also sometimes willing to discount a promissory note signed by the person discounting it, this procedure being a convenient method of lending against personal security. The banker usually requires the endorsement of at least one substantial person.

Discounting is not necessarily confined to dealings in bills. Redeemable and Drawn Bonds may also be discounted, and in some countries Drawback Debentures, payable at a date subsequent to the date of issue, are also discounted. Some, but not all, German banks are willing to discount book debts (see p. 110).

Advances to Customers.—A banker's loan may take the form of (*a*) an overdraft on Current Account, or (*b*) an advance on Loan Account. In the first case the banker allows his customer to *overdraw* his current a/c up to a specified limit, and charges him for interest on the amount overdrawn, the interest being usually 1 % above bank rate and calculated on the maximum debit balance during each month. In the second case the full amount of the loan is entered to the credit of current a/c, the customer is debited

in a separate loan a/c, and interest is charged on the full balance standing to his debit in the loan a/c, whether he uses it all or not. Whereas the loan a/c method is usual in London, overdrafts are more general in the provinces. Some bankers charge commission on turnover (say $\frac{1}{8}$ %) in addition to interest on the money advanced.

The British banks use about half (49·7 % in the example shown on p. 100) of the money received in deposits for making advances to customers, apart from discounting bills.

In exceptional cases advances may be made on the strength of customers' ability and integrity; but as a general rule bankers do not lend without security. The principal forms of security are:

1. Bills of Exchange;
2. Marketable Securities;
3. Documents of Title to Goods;
4. Life Policies;
5. Personal Guarantee;
6. Bills of Sale;
7. Mortgages.

A lender's object in demanding security is to acquire some right or property which will enable him to recover the loan more easily than by suing his debtor in the court. Security may take the form of (*a*) a lien, (*b*) a pledge, (*c*) a mortgage, or (*d*) personal security.

A banker has a **lien**[1] on all moneys or property which come into his possession in his capacity as banker, but has no lien on articles left for safe custody, in regard to which his position is that of a *bailee* (see p. 163). The collection of bills and documents is part of the banker's business, however, and therefore he has a lien on such things if they are left with him for that purpose.

Bills discounted, or made payable to the banker and negotiated to him, are of course the property of the banker, so the

[1] See *Principles and Practice of Business*, p. 285.

question of lien does not arise. In the case of foreign bills *collateral security* is frequently given [1] in bills of lading.

A **pledge** is a bailment of personal property for the purpose of securing the repayment of a loan or the fulfilment of any obligation. The lender or *pledgee* is entitled, in addition to his right of lien, to sell the goods if the *pledgor* fails to repay the loan. In considering the suitability of any article which may be offered as security, the banker has regard to (*a*) its inherent worth, (*b*) its tendency to fluctuate in value, and (*c*) the possibility of turning it into money at once in the event of the borrower failing to repay the loan. Any kind of movable property may serve as a pledge, but the most usual are marketable securities, merchandise, life policies, and bills. As the value of any sort of property is liable to depreciation, the pledgee is careful to protect himself by lending only a part of the value of the security, whatever it may, so as to leave a margin for a drop in prices.

Where marketable investments are pledged to secure a loan, the banker usually requires the borrower to sign a **Memorandum of Charge** describing the investments, authorizing the banker to realize them and reimburse himself out of the proceeds should the borrower make default, and to call in the loan after giving notice, or for want of better security if the value of the pledge is not maintained.

Bearer securities are preferable to registered securities, because the banker's title thereto is complete by delivery.

Bills of Lading, Warehouse Warrants, and Delivery Orders are another common form of security, the banker's rights in regard to which are usually written in a Letter of Hypothecation.[2]

Before lending on the security of a Life Policy a banker may require his customer to execute a proper **assignment of policy**, and to receive notice from the insurance company that the assignment has been registered. The banker will also require his customer to show receipts for premiums

[1] See chap. VI. [2] See chap. VI.

as they are paid, so that he may see that the policy is not allowed to lapse.

A **Bond** or **Guarantee** must be in writing, and must be signed by the guarantor. No claim can be sustained against the guarantor unless the debtor has actually failed to pay, and the guarantor is not liable in respect of debts incurred outside the scope of the guarantee. The amount is always stated, but the guarantee may be *limited* as to time, or *continuing*, and *joint* or *several*.

The difference between a pledge and a mortgage is that a pledge is a bailment, whereas a mortgage is a transference of ownership. Goods pledged remain the property of the pledgor, subject to the pledgee's right of lien and conditional right of sale, but the pledgee must have control of the goods. Mortgaged goods become the property of the lender, subject to the borrower's right to redeem, but the borrower may retain possession of the goods.

The term **Mortgage** is usually applied in connection with landed property and ships. The debtor and creditor are known respectively as the *mortgagor* and the *mortgagee*. A mortgagee of landed property has the right, subject to the terms of the mortgage deed and the Conveyancing Acts, to obtain payment of his debt through the exercise of his **power of sale**, when it has arisen, without regard to the then existing condition of the market. If by realizing his security the mortgagee receives more than enough to pay what is due upon it, he stands in a fiduciary position towards the mortgagor with regard to the balance. A *legal mortgage* is contained in a deed legally conveying the property. An *equitable mortgage* is effected by merely handing over the title deeds; and the borrower is usually required to sign a **Memorandum** engaging to effect a legal conveyance if called upon to do so. Where a short loan is required for commercial purposes, the equitable mortgage is more usually resorted to, as it saves trouble, and if the borrower duly repays the loan the formality incurs no expense beyond the *6d.* stamp for the memorandum.

Mortgages are not a favourite form of security among bankers, because they are not a liquid investment. The

mortgagor usually requires a loan of long duration, and if the mortgagee should be obliged to exercise his right of sale and thrust the property on the market at a time when inquiries were scarce, a sale might realise less than the amount of the loan.

Mortgages are frequently arranged with private individuals through the agency of solicitors. Advances on smaller properties are made chiefly by building societies. On the Continent mortgages are generally arranged through Notaries,[1] or undertaken by land mortgage companies[2] and mortgage banks,[3] but some commercial banks invest a considerable part of their funds in mortgages.

A mortgage on personal chattels—*e.g.* machinery or furniture—must be registered as a **Bill of Sale** and made in accordance with the form scheduled to the Bills of Sale Act, 1882. The assignor and assignee of goods under a bill of sale are known respectively as the *grantor* and the *grantee*.

Money at Call and Short Notice.—This item represents money lent out in the money market for the shortest possible periods. "**Call Money**" is repayable on demand, and "**money at Short Notice**" includes "overnight money," borrowed from one afternoon to the next morning, "day-to-day," "weekly," "settlement" and "contango" loans.

Such advances would be of little use to manufacturers or traders, but as short money rates are lower *per cent. per annum* than discount rates they may be profitably used by bill discounters. Short loans can also be utilized by members of the stock exchange.

Dealings with Corporate Bodies.—Apart from the question of security, the banker has to consider, in dealing with limited companies and municipalities, that a corporate body only exists for the purpose for which it was incorporated,

[1] Fr. *Notaires*; Ger. *Notare.*

[2] Fr. *Crédits Fonciers*; Ger. *Bodenkreditanstalten.*

[3] Fr. *Banques Hypothécaires*; Ger. *Hypothekenbanken.*

and that its officials have no power to bind it to any contract which is outside the scope of its business or contrary to its regulations. Before opening an account for a company, bankers require the company to produce copies of the following documents :

(1) Certificate of Incorporation ;
(2) Memorandum of Association ;
(3) Articles of Association ;
(4) Resolution of the Directors appointing the bankers as bankers to the Company. (This copy to be signed by the chairman, countersigned by the secretary, and to bear the Company's official seal.)

From these documents the bankers may ascertain the manner in which the account is to be worked, the powers which the company has to borrow money, and whether the bankers have been properly appointed by the authority of the company. If money were borrowed *ultra vires* the company, or *ultra vires* the directors (*i.e.* beyond the powers given in the Memorandum or Articles of Association), the bank would have no legal power to recover such money from the company.

Foreign Commercial Banks.—In comparing British banks with those of foreign countries we find that the most salient differences between British and Continental banking lie in the direction of (*a*) security, (*b*) liquidity, and (*c*) variety of operations.

It is generally conceded that manufacturers and traders on the Continent—particularly in Germany and Switzerland—can obtain more liberal assistance from the banks than is available in this country. The Continental banker is usually more willing to advance money without security to a business man, provided the latter can show that he requires the loan for a productive purpose and can give evidence that when he has carried out his plans the means to repay the loan will be forthcoming.

(1) Take the case of a London furrier, who has received numerous inquiries for cheap woollen boas. He bought a large stock of sheepskins at public auction, so as to get them

cheap, and deposited them at a public warehouse, so as to raise a loan on the warrant (see p. 272). The banker, who advanced part of the value on the security of the warrant, was willing to release the skins in batches against repayment of a proportionate part of the loan, but not otherwise. The boas were required for sale in the autumn, but the furrier started manufacturing almost a year before. The bank's insistence on payment before delivery of the skins put such a strain on the furrier's resources that he had to curtail his other business to "make both ends meet." A German banker would have let him have the skins and extended the loan without demanding further security.

(2) Take as another instance the case [1] of a Midland manufacturer selling goods to Italy. The Italian buyer has been accustomed to long credit, and if long credit is refused the business will probably be impossible. The manufacturer sells goods for, say £50,000, and the payment of that price would leave him with a considerable margin of profit, but the offer of the Italian buyer to pay him the equivalent of £50,000 in lire at six or twelve months is not attractive. He would much rather accept a lower figure than £50,000 for a clean cash transaction in sterling, and it is in connection with such business as this that the German banks act as intermediaries, taking a share in the profit and part of the financial liability. Obviously any banker would be foolish in undertaking such risks without knowledge of the buyer's financial standing and the manufacturer's ability to fulfil his part of the contract; but the success of Germany's overseas trade before the war was largely due to the efficiency of that country's banking system coupled with an elaborate network of commercial intelligence.

(3) There are a few German banks which have developed a system of discounting book debts. The wholesale merchant, who is frequently obliged to allow his customers long credit on open accounts, is as anxious to turn these debts into money as if they were secured by acceptances. The banks which undertake the discounting of book debts naturally make full inquiries into the resources of customers requiring this sort of accommodation, and in order to allow for bad debts only a portion of each account is discounted. The amounts of invoices and statements discounted are not paid to the bank, but are collected by the creditor, so that the trade

[1] Cited in the Report mentioned on p. 112.

debtor has no knowledge of the arrangement. In collecting the debt the creditor acts in the capacity of agent for the banker, and must therefore hand over to him all moneys so soon as they are received, but is entitled to retain the margin provided it is not due to the banker under his general right of lien in respect of previous accounts.

Some banks have discontinued the practice of discounting book debts because they have found that traders have used the system as a means of raising money twice over on the same security. It has been possible for a merchant to obtain a loan at one bank on the security of his assets generally, as certified in his balance sheet, and then to get another bank to discount his book debts.

Naturally the granting of financial facilities without realizable security impairs the liquidity of a bank's resources. The class of loans referred to above cannot be called in at short notice, and if trade is bad they have to be renewed against no better security than was given in the first instance. The greatest difference as regards liquidity between British and foreign banks may be seen where the latter apply part of their funds to financing companies, and acquiring an interest in non-banking concerns.

(4) In the case of German manufacturers it frequently happens that on the Board of the company there is a representative of a bank, and there is little doubt that German banks have exercised an amount of control over the manufacturing concerns in which they are interested which would not be possible, even if it were desirable, in the United Kingdom. Such interference has in most cases originated by the industrial undertaking becoming heavily committed to the bank, which has been willing to allow further credit in return for admission as limited partner or shareholder.

(5) More or less complete control of industrial undertakings is exercised by the **Trust Banks** referred to on p. 23. The most celebrated example is the *Bank fur elektrische Unternehmungen,* which was founded in Zurich in 1896 by the Allgemeine Elektrizitäts-Gesellschaft of Berlin. In the last year before the war of 1914-18 this bank had a capital of just over 120,000,000 Swiss francs, which was invested in shares of

thirty-four companies of various nationalities, owning power-stations, tramways, electro-chemical or engineering works, or engaged in financial business. Although these companies had the appearance of being independent, and their shares were dealt with on the stock exchanges, the majority of the shares of each were held by the Trust Bank, and the majority of the shares of the latter were held by the A.E.G.

(6) A divergence from the traditions of banking proper as complete as that of Trust Banks, but with a more risky purpose, may be seen in the Continental **Finance Banks**,[1] which finance new undertakings by taking up or underwriting (see p. 66) new share issues, with a view to disposing of them at a profit. In this country financial companies which undertake underwriting are not called banks.

A sub-division of the above category, to which we will give the name of **Speculation Banks**,[2] extend their operations to commission business *en bourse*, and devote the funds which they control to speculation in all sorts of securities, and even commodities. These banks usually do no banking proper, though they occasionally deal in bills, foreign exchange and precious metals, and their depositors are capitalists who employ the bank to work for them on a commission basis, or co-operate with the bank on joint adventure.

While some finance banks work almost entirely with money borrowed in the form of deposits, many banks of this class have a very large share capital, and in any case such work as underwriting new issues, "stagging," and "rigging" the market by simultaneous buying and selling on a large scale with the object of affecting prices, can only be undertaken by firms having considerable means at their disposal.

British Financial Facilities.—In this country an attempt has been made to encourage foreign trade after the manner of the German banks by the formation of the *British Trade Corporation*, which was constituted under Royal Charter in 1917, "to provide financial facilities for trade after the war." The charter was given in accordance with the recommendations of a Committee appointed in the previous year to

[1] Fr. *Banque de Placement*; *Haute Banque*. Ger. *Gründungsbank*, *Finanzierungsbank*.

[2] Fr. *Banques de Spéculation*.

"consider the best means of meeting the needs of British firms after the War as regards financial facilities for trade, particularly with reference to the financing of large overseas contracts."

The chief features recommended in the report of the Committee were that the trade bank or corporation should (1) have a capital of £10,000,000—£2,000,000 has now been paid up—(2) not accept deposits at call or short notice, (3) only open current a/cs for parties requiring overseas facilities, (4) afford special facilities for dealing with bills in foreign currency, (5) issue credits to parties at home and abroad, (6) have agencies and branches abroad, (7) inaugurate an information bureau, (8) not interfere with other banks, but invite them to work on joint account and submit transactions which they are not prepared to undertake alone owing to length of time, magnitude or other reasons, (9) co-operate with merchants and manufacturers and possibly accept risks on joint a/c, (10) become a centre for syndicate operations, (11) receive Government assistance to foster British key-industries and British interests abroad through the co-operation of foreign attachés.

As regards the financing of new companies and large contract operations at home, services similar to those offered by the foreign financial banks have been provided in the past by British financial houses other than banks. The Commercial Bank of London, Limited, was formed to undertake this class of business, but it has now ceased to be a bank, having discontinued its deposit banking business and altered its name to the *Commercial Corporation of London, Ltd.*

Savings Banks.—A Savings Bank differs from a commercial bank by being a voluntary institution, existing merely to encourage the humbler classes to save their earnings. All private savings banks are regulated by the law relating to Trustee Savings Banks. The only other kind of savings bank is the Post Office Savings Bank, which is the property of the State.

Trustee Savings Banks are so-called because their management is committed by the depositors to trustees and managers. The property belongs to the depositors, and the bank exists solely for their benefit. A part of the moneys deposited is invested in approved securities, but the trustees and managers must not derive any personal profit from the proceeds, or deduct therefrom any more than is necessary to defray the expenses of management.

The movement was originally associated with the clergy, and the first three savings banks were founded by clergymen, one in 1799 at Wendover, the next in 1807 at West Calder, and another in 1810 at Ruthwell. The first two Savings Bank Acts were passed in 1817, and have been followed by numerous statutes for the protection of depositors in private savings banks The Act of 1863 provides *inter alia* for a half-yearly audit, and compels trustees and managers to submit weekly returns to the Commissioners of National Debt

The Post Office Savings Bank was formed by Act of Parliament in 1861, when Mr. Gladstone was Prime Minister. A government savings bank had been suggested as early as 1806, but the proposal that it should be run by the Post Office was first made in 1858 by Archdeacon Hamilton, who saw that the bank could thus be held constantly before the public, and branches provided in the greatest number and at the least possible expense The idea was elaborated in 1859 by Mr Sikes of the Huddersfield Banking Co , and the final plan drawn in 1860 by Mr Chetwynd of the Post Office

In the British Isles the number of Post Office depositors is now more than twice as large as that of the members of all other savings banks put together

The Post Office performs some of the functions of commercial banks, in so far as it receives deposits and pays interest thereon, collects cheques and dividends, purchases and sells Government Stock and Annuities for its depositors, and undertakes (though not in the savings bank department) inland and foreign remittances by Postal Order, Money Order, or Telegraphic Money Order. The Post Office does not. however, issue notes, or make payments against cheques, or pay out any sum over £1 on demand, or undertake discount, loan or acceptance business, commercial

intelligence, collection of foreign bills, or any banking service which could be of practical utility to the trading community.

Exercise 4.

1. What is Finance ? (S.A.tpc.II.)

2. What is a bank ? Frame your answer so as to exclude concerns which, in your opinion, carry on business improperly under the name of a bank. (S.A.tpc.II.)

3. Write notes for a brief essay on the origin and development of Banking up to the foundation of the Bank of England.

4. Who were the Lombards, and what part did they play in commerce ?

5. What was the Bank Restriction Act ? To what extent did it achieve its object ?

6. State briefly the main provisions of the Bank Charter Act of 1844. Show how the Bank's present functions and privileges differ from those which existed before 1844.

7. How would you ascertain from the Bank Return issued every Thursday afternoon by the Bank of England the amount of notes in circulation ? What are the items "Rest," "Public Deposits," and "Gold and Silver Bullion" referred to in the Banking section of the return ? (D.C.C.II.)

8. What is meant by a "Suspension of the Bank Act" ? Has such a suspension ever occurred, and if so with what effect ?

9. To what features is the stability of the modern banking system mainly attributable ?

10. Why do the London joint-stock banks issue returns, and who uses such returns ? (S.A.tpc.III.)

11. What are the principal items in the balance sheet of a joint-stock bank ? How can you tell from such a balance sheet that the bank is sound ? (S.A.tpc.III.)

12. What is the difference between a drawing account and a deposit account ? What in general is the relationship between a banker and his customer ? In what way does a banker lend money (or credit) to his customers, and whose money (or credit) does he lend ? (S.A.tpc.II.)

13. Both banks and life insurance companies are large investors. State briefly the considerations upon which each decides what are desirable and what are undesirable investments for them to make ? (S.A.tpc.III.)

14. State briefly the advantages the trading community derives from our modern system of banking. (S.A.tpc.II.)

15. What is meant by (*a*) discounting, (*b*) accepting of bills by a banker?

16. For what purpose does a banker require "security" for a loan or overdraft? And why are good trade bills often discounted in the ordinary course of business without collateral security?

17. Distinguish between (*a*) a lien, (*b*) a pledge, and (*c*) a mortgage. Illustrate your answer by means of examples, and show which classes of security are desirable, and undesirable, from the banker's point of view.

18. What are the advantages to a business man of having a banking account? (D.C.C.II.)

19. What special precautions are taken by bankers before allowing banking facilities to corporate bodies?

20. What are the chief functions of a bank (*a*) in England, (*b*) in Germany? (S.A.tpc.II.)

21. What long-term financial facilities are available in England to (*a*) exporters and overseas traders, and (*b*) home contractors and undertakers of new industries?

22. How does a savings bank (*e.g.* the P O. Savings Bank) differ from an ordinary bank? (S.A.tpc.II.)

CHAPTER V.

THE MONEY MARKET.

London as a Banking Centre.—That London is the monetary centre of the world is due to its geographical and commercial position, as the most important seaport. The growth of international trade has made it necessary for producers and consumers all over the kingdom to be represented at the port through which they have their dealings with the outer world, while foreign and colonial bankers have found it profitable to open branches in the metropolis in order to secure a greater share of their countries' Exchange business [1] with Great Britain. The large Entrepôt trade [2] done in London also necessitates extensive banking facilities, and as London is a market for the produce of every country in the world [3] bills and credits payable in London are offered for sale in all commercial centres, and may be purchased by foreign buyers of British goods. London "paper" has thus become in a measure a sort of international currency, the demand for which has increased as the supply has become more plentiful. All commercial centres are in touch with London, though they may not have direct banking connections with other centres, and so it happens that numerous transactions in goods between points outside this country are financed here. Thus produce from the East to the United States and from South America to Japan

[1] Chap. XI. [2] Chap. XII. [3] Chap. XIII.

may be shipped against acceptance credits[1] arranged through London in sterling form, and it is the readiness with which such credit is granted and the respect which attaches to the sterling bill that makes this business possible.

London is also an important market for precious metals, a state of affairs which is largely due to the fact that formerly (1821 to 1914) London was a free market for gold, to which foreign countries had access through the simple expedient of cashing Bank of England notes at the Issue Department; that the South African gold mines belong to British companies; and that Britain's extensive trading relations with the East have naturally resulted in a supply of and demand for silver at her principal port of commerce

All these causes have contributed to London's banking resources, which have become greater than those of any other centre in the world, and have themselves helped to keep British trade together and to develop it.

Some idea of the working of the Banking System in London may be gained by imagining the various banks having offices in the metropolis to be arranged in two concentric circles, with the Bank of England at the centre (see Fig 1)

The Bank of England is represented as the centre of the system because it is there that the bulk of the gold reserve of the country is kept. In addition to keeping the accounts of the British Government and some of the largest public bodies and private firms, the Bank of England is the bankers' bank and the centre of the clearing system. It holds part of the reserves of the principal banks in the City, its vaults contain the gold which covers the Bank of England note issue, and the B. of E. reserve, against which it discounts bills and makes advances against security, is greater

[1] See p. 296.

than that of any other institution. The **Bank Rate** of discount therefore controls to a great extent the discount and

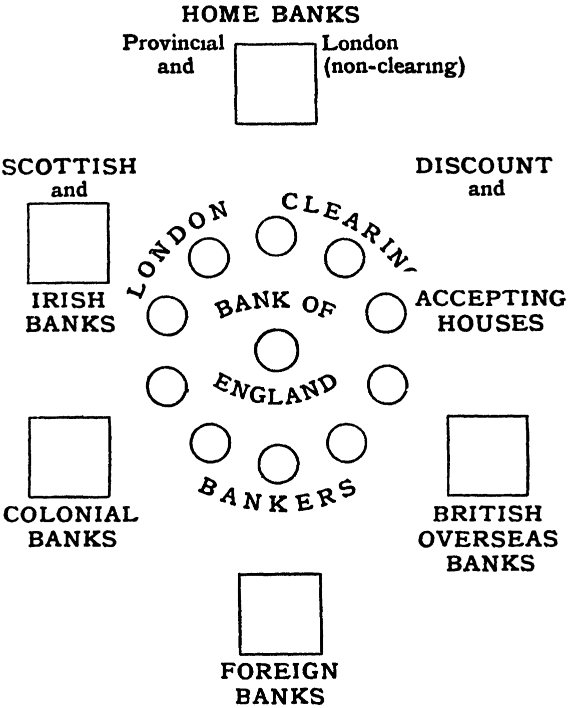

FIG 1 – CONSTITUTION OF THE LONDON BANKING SYSTEM

NOTE.—Payments from one member of the money market to another usually take the form of a transference of credit in the accounts of one or more of the banks represented by the inner ring of circles: either (*a*) at the Bank of England or other clearing bank only, or (*b*) through the clearing house.

The ultimate meaning of "money" in the money market is credit at the Bank of England.

loan rates charged by other bankers. It is noteworthy, however, that the system created by the Act of 1844, whereby the issue of additional currency by the Bank was made

dependent on the purchase of gold, became vitiated by the issue of paper money by the Government. Under the Currency and Bank Notes Acts of 1914 the large banks were able to obtain Treasury Notes through the Bank of England (see p. 140).

The Clearing Banks are content to leave large balances to their credit at the central institution for the following reasons: (1) The Bank of England provides a convenient and gratuitous storage for part of their reserves. No interest is paid thereon, but the purpose of a reserve is not to earn interest; and (2) by contributing to the Bank of England reserve the other banks strengthen the system as a whole. (3) The clearing system necessitates a balance to the credit of every member to cover transfers to the A/c of the Clearing Bankers in settlement of that member's indebtedness to other banks through the Clearing House. The clearing balances also include collections for the account of non-clearing banks, for in order to make use of the Clearing House any banks which are not members must employ the services of one of the clearing banks as Clearing Agent.[1]

The interworking of the banks effects an economy in coin and notes, since their reserves consist of cash in hand and "at bankers." A banker who discounts a bill drawn on one of his own customers debits that customer's account when the bill falls due, and thus reduces his liabilities to customers on current accounts. But if the bill is domiciled elsewhere its payment will be in the form of credit with the paying bank, either direct, or through agents, or through the clearing house. The same applies to the collection of any sort of security through the banks. The receiving bank's balance of "Cash at Bankers" is increased, and may be withdrawn in currency if desired. In the event of a general demand for currency, recourse must be had to the Bank of England.

[1] See *Principles and Practice of Business*, p. 206.

The principal banks in each group shown on the diagram (Fig. 1) are :

THE LONDON BANKING SYSTEM.

English Group.

London Clearing Banks.

Bank of England.
Bank of Liverpool and Martin's Ltd.
Barclay's Bank, Ltd.
Coutts & Co.
Cox & Co.
Glyn, Mills, Currie & Co.
Lloyds Bank, Ltd.
London County Westminster and Parr's Bank, Ltd.
London Joint City and Midland Bank, Ltd.
National Provincial and Union Bank of England, Ltd.
Williams Deacon's Bank, Ltd.

A Provincial Bank.

Manchester and Liverpool District Banking Co., Ltd.

There are now only four purely provincial banks in England having an independent existence, viz. : the Lancashire and Yorkshire Bank, Ltd., The Manchester and County Bank, Ltd., The Manchester and Liverpool District Banking Co., Ltd., and the Union Bank of Manchester, Ltd. Of these only the Manchester and Liverpool District has an office in London, and the Union Bank of Manchester is affiliated to Barclays.

Scottish Group.

Bank of Scotland.
British Linen Bank.
Clydesdale Bank, Ltd.
Commercial Bank of Scotland, Ltd.
National Bank of Scotland, Ltd.
Royal Bank of Scotland.
Union Bank of Scotland, Ltd.

The Bank of Scotland, established in 1695 by Act of Parliament, was the first of the Scottish banks. It opened an office in London in 1867, and now has a working arrangement with the London County, Westminster and Parr's Bank. The next in the field was the Royal Bank of Scotland, incorporated by Royal Charter and established in 1727. Its London office

was opened in 1874. The British Linen Bank, established under Royal Charter in 1746 as the British Linen Co., began issuing its own notes in 1750, and quickly became a purely banking business. It is now affiliated to Barclays.

Irish Group.

National Bank, Ltd.
Provincial Bank of Ireland, Ltd.

The Belfast Banking Co., Ltd., is affiliated to the London Joint City and Midland Bank. The Bank of Ireland, Royal Bank of Ireland, Ltd., Hibernian Bank, Ltd., Munster and Leinster Bank, Ltd., Northern Banking Co., Ltd., and the Ulster Bank, Ltd., have no offices in London. The Bank of Ireland began business under Royal Charter in 1783, and is the oldest of the six Irish note-issuing banks. *It holds a position in Ireland similar to that which the Bank of England occupies in England,* in so far as it keeps the Government accounts, and its stock is one in which trustees may invest unless otherwise instructed.

Colonial Group

African Banks.

Anglo-Egyptian Bank, Ltd.
British Bank of West Africa, Ltd.
National Bank of Egypt.
National Bank of South Africa
Standard Bank of South Africa, Ltd.

Australasian Banks

Australian Bank of Commerce.
Bank of Adelaide.
Bank of Australasia.
Bank of New South Wales.
Bank of New Zealand.
Bank of Victoria.
Commercial Bank of Australia, Ltd.
Commercial Banking Co. of Sydney, Ltd.
Commonwealth Bank of Australia.
English, Scottish and Australian Bank, Ltd.
National Bank of Australasia.
National Bank of New Zealand, Ltd.
Queensland National.
Union Bank of Australia, Ltd.

Canadian Banks.

Bank of Montreal.
Canadian Bank of Commerce.
Dominion Bank.
Merchants Bank.
Bank of Nova Scotia.
Royal Bank of Canada.
Union Bank of Canada.

BRITISH OVERSEAS GROUP.

Working in Foreign Countries.

Anglo-South American Bank, Ltd.
Bank of Roumania, Ltd.
British Overseas Bank, Ltd.
British Trade Corporation.
Colonial Bank.
Commercial Bank of Spanish America.
Hambros Bank of Northern Commerce.
Imperial Bank of Persia.
Imperial Ottoman Bank.
Ionian Bank.
London and Brazilian Bank, Ltd.
London and River Plate Bank, Ltd.
P. & O. Banking Corporation.

Eastern.

Chartered Bank of India, Australia and China.
Eastern Bank.
Hongkong and Shanghai Banking Corporation.
Mercantile Bank of India, Ltd.
National Bank of India, Ltd.

The banks of this group work almost entirely with British capital, though their principal activities are in foreign countries, where they have their own branches or affiliated banks. The Eastern Banks are shown separately because, although much of their business is in China, the Dutch East Indies, the Philippines and Japan, they also operate in the Eastern States of the British Empire.

FOREIGN GROUP.

American.

Guaranty Trust Co.
National City.

Chilian.

Banco de Chile.

French.

Comptoir National d'Escompte de Paris.
Crédit Industriel.
Crédit Lyonnais.
Société Générale de Paris.

Greek.

Bank of Athens.

Italian.

Banca Commerciale Italiana.
Credito Italiano.

Japanese.

Bank of Taiwan, Ltd.
Mitsubishi Bank, Ltd.
Sumitomo Bank.
Yokohama Specie Bank, Ltd.

Spanish.

Banco de Bilbao.
Banco Español.

Swiss.

Swiss Banking Corporation.

The following summary shows approximately the aggregate deposits, capital and reserves in 1921 of the banks having offices in London :

Group.	Deposits. £ millions.	Capital and Reserves. £ millions
English - - - -	1,881	120
Scottish and Irish - -	315	20
Colonial - - - -	908	100
British Overseas - -	366	54
Foreign - - - -	925	125
	4,395	419

Naturally the greater part of the funds controlled by the banks of the last three groups are employed in the countries in which the banks operate, but their presence brings business to London, adding to its importance as a banking centre.

The figures do not, however, include two important groups of Finance Houses, which, though they are not banks in the full sense of the word, are properly represented in the diagram as forming part of the London banking system, as they help in the financing of foreign trade by accepting and discounting bills of exchange. Such names as Huth & Co., Lazards, Baring Brothers, Brown, Shipley and Kleinworts bring to the mind of the business man a group of some thirty so-called **Accepting Houses** which serve as initiators of great business transactions. As specialists in their domain they are more closely in touch with the particular trade operations which they finance by means of their acceptances than the banks are, and are therefore able to provide facilities which would not be obtainable elsewhere. Among the Discount Companies, whose special function is explained in the next paragraph, Alexanders' Discount Co., Ltd., Baker, Duncombe & Co., Ltd., B. W. Blydenstein & Co., Ltd., and the National Discount Co., Ltd., occupy a prominent position in the London market.

Bill Brokers and Discount Houses.—A Bill Broker is a merchant whose special business it is to buy and sell bills of exchange. He fulfils the double function of discounter and intermediary between the traders and others whose bills he discounts and the banks who re-discount some of the bills for him. Though the term "Bill Broker" denotes an individual dealer in bills, there are also many large firms of bill brokers, and the term is synonymous with "Discount House." An **Exchange Broker** is one who specializes in foreign bills.

Both Country and City banks purchase bills from the bill brokers and discount houses in addition to discounting for their own customers, as (1) they are thus able to obtain a supply of first-class bills which would not otherwise come their way; (2) the brokers usually have a wide selection of bills to offer, so that the banker who anticipates a demand

on his resources at certain future dates is able to invest in those maturities which will put him in funds again in time to meet his commitments ; and (3) bill brokers hold themselves responsible for the due payment of all bills offered by them. It is not the custom of the bill broker to endorse the bills that pass through his hands, but he sees that the seller endorses them, and usually gives the re-discounting bank a general guarantee covering a number of bills, in addition to which he may deposit batches of bills or "Floaters" (see p. 38) as collateral security.

As buyer and seller, the broker's dealings are naturally confined to those bills of which there is a positive supply and demand, for in finance, as in trade, an intermediary cannot exist without a market. The bill broker creates a market by seeking out the holders of bills, and offering the bills to the banks.

So far as the home trade is concerned, the broker has no supply of bills beyond those he may discount himself; for in the usual course of business inland trade bills pass through the banks for collection, and if the banker is asked to discount them he can readily obtain information regarding the status of the acceptors. Moreover, English bankers do not have their bills re-discounted, as foreign bankers do ; for an attempt to realize their portfolio would give an unfavourable impression of their financial position.

By far the majority of bills discounted in London are those which arise in connection with foreign trade, and the City banks obtain these bills through the bill brokers. The supply consists chiefly of (1) trade bills drawn abroad and accepted by importers here, and (2) bills accepted by foreign and colonial banks under London accepting credits, and those bearing the acceptances of finance houses other than banks. The broker calls daily at the offices of the foreign banks, etc., and receives from each a list of bills which they wish discounted, and with this he proceeds to the City banks to arrange business.

The banks choose those acceptances and maturities which suit their fancy, and are able to refuse, without incurring anybody's displeasure, those which they consider less desirable.

In particular, the banks are unwilling, for reasons stated on p. 103, to discount any foreign trade bills unless they are either documentary, or if clean, then stating that they are drawn against specific shipments. They also discriminate against acceptances by foreign firms and "foreign agency" bills, *i.e.* those accepted by English representatives of foreign firms, the bulk of whose assets are situated abroad.

The intricacies of modern banking, and the vast amount of specialized knowledge which is needed to conduct any one of its departments, including dealings in foreign bills, on such an international centre as London, makes the broker's services very useful to the banker. The special business of the broker is to know all about foreign bills and the character and credit of the merchants and dealers who accept and endorse them. It is, therefore, not surprizing that he continues to play an important part in this market, though in foreign centres the banks manage to do without him. Moreover, the commission taken by the broker, amounting to an addition of $\frac{1}{32}$ to $\frac{1}{8}$ % to the rate *per cent. per annum*, is not worth considering The broker buys by this amount cheaper than the market rates at which the banks re-discount the bills for him, but he is able to dispose of many bills which would not command a good price without his guarantee.

The margin of profit obtainable by the bill broker is but a very small part of the value of the bills which pass through his hands, for it is derived from fractional differences between the rates which he receives and pays. An immense turnover is necessary to make the business profitable, and the broker consequently requires a large amount of circulating capital.

In addition to selling many of his bills, as explained above, the broker contrives to borrow the money he wants at the cheapest possible rates, and just as he needs it, so as to waste nothing through paying interest on money which is not actually in use. It would not be profitable to discount

bills with capital raised permanently for that purpose, for discount rates are low in comparison with those obtainable from investments for longer periods. The cheapest accommodation may be obtained from the banks, the nature of whose business is such that it leaves them with fluctuating cash reserves, part of which may be lent out for very short periods, though it would not be safe to lock up such money in advances to customers. Rather than allow such surplus balances to lie idle, though even for a day, the banks are willing to lend them at very cheap rates, repayable at "call" or "short notice." These short loans form the bulk of the working capital of the Bill Brokers and Discount Houses, who give security as explained above. A portion is even borrowed "overnight," and it is the bill broker's business to find out each morning which banks are likely to have balances available or to call in their advances, and to fix his rates of discount accordingly.

Money at "call" and "short notice," and fortnightly "settlement" loans are also used extensively by members of the Stock Exchange.

Though some of the large Discount Companies encroach on the domain of banking to the extent of receiving deposits to obtain funds which they would otherwise have to borrow from the banks, bill brokers as a class cannot be regarded as harmful competitors of the latter. The business of the discount houses differs essentially from banking in that they cannot afford to keep a cash reserve, or in other words to pay interest on money and keep it lying idle. All money in the bill dealer's hands must be interest-earning, and if a run is made upon him he relies upon the Bank of England to advance him money on the securities he holds.

What is the Money Market?—The "Money Market" is that organization through which loanable money is dealt in.

In particular, the term is applied to any place where advances are obtainable for short periods, and in that sense

it embraces no more than the market for short loans and the **Discount Market**. The commodity dealt in is the **short loan fund**, consisting of the total amount of money available at any time for advances against bills or for short loans. The market is not confined to any particular building. It centres around the banks and finance houses, to whom the temporary surplus from private and public finance gravitates in the form of deposits. The demand for the money arises with the need of commercial men and public departments for temporary advances to bridge the gap between expenditure and revenue.

In a wider sense the Money Market may be understood to include the organization through which saved-up capital is lent for long periods, or contributed in return for shares in joint-stock undertakings. The suppliers of such capital are the investing public. Users include governments, municipalities, companies, etc. The intermediaries are the banks, underwriters of new issues, company promoters and stockbrokers.

The **Foreign Exchange Market**, the **Bullion Market**, and the **Stock and Share Markets** are also frequently referred to as forming departments of the Money Market, but such a classification is not exact, and should be avoided. The Money Market is the vehicle through which money is lent in return for interest or contributed to undertakers with a view of profit-sharing. The other markets referred to above exist for the purchase and sale of foreign currencies, precious metals and marketable securities respectively.

Lombard Street seems to have been associated from very early times with monetary dealings. Until 1568 the Goldsmiths and Merchants used to meet there to transact their business; but in the following year accommodation was provided in a building erected in Cornhill by Sir Thomas Gresham, Queen Elizabeth's financial adviser. The place was first known as the *Bourse*, and later as the **Royal Exchange**, being the forerunner of the present building of that name. Nowadays the true centre of the Money Market is the Bank

of England, and all the largest banking and financial houses of the City are situated in the immediate neighbourhood of the Bank and Lombard Street.

Discount and Money Rates.—The price of money—*i.e.* the cost of borrowing it—is governed, like the price of any other commodity, by the relative intensity of supply and demand. Every day the financial columns of the leading newspapers contain a list of the rates at which dealings have taken place on the previous day, and a short article on the state of the Money Market generally and the tendency of available credit to become more or less plentiful All rates are quoted *per cent per annum.* The following examples are taken from the *Daily Telegraph*

MONEY MARKET

BANK RATE 4½ p c

Lowered Feb 16 from 5 p c

Tuesday Evening, 11th April, 1922

The approach of Easter is beginning to tell upon market resources some of the provincial banks apparently calling in again to-day in preparation for holiday requirements Money though still in good supply was not so plentiful at the close and late borrowers were not so easily accommodated at 2 per cent as on previous days The general rate for call loans was 2½ per cent with old money going on at 3 per cent while weekly money ranged from 2½ to 3 per cent The full three months' commercial bill was called 2 13/16 to 2⅞ per cent, and a few Treasuries were changing hands on the basis of 2½ to 2 9/16 per cent

MARKET DISCOUNTS

	Per cent			Per cent	
60-day Bank bills	2⅝		3 m fine trade bills	4	4¼
3 mths Bank bills	2 11/16	2¾	4 m fine trade bills	4¼	4¾
4 mths Bank bills	2 13/16	2⅞	6 m fine trade bills	4½	5
6 mths Bank bills	3				

BANK AND MONEY RATES

Bankers' dep rate	2½	7-day market loans	2½	3
Brokers' dep rate call	2½	Day-to-day money	2½	2
Brokers' dep notice	2¾			

The **Bank Rate** is the advertised minimum rate charged by the Bank of England for discounting approved bills or granting short loans It is fixed by the Court of Directors at their meeting every Thursday, but in emergencies the Bank has been known to alter its rate on other days. The

Bank Rate is usually higher [1] than the market rates quoted by other banks and discount houses, because the chief concern of the directors is to protect the Reserve rather than to attract business. If for any reason the Reserve becomes depleted they raise the Bank Rate, thus checking the demand for currency, whereupon the other banks, by mutual consent, increase their common rate for deposits withdrawable at notice, shown in the money column as the Bankers' Deposit Rate. This rate has no reference to Bank of England deposits, on which no interest is paid It is adopted uniformly by all London bankers, and maintained at a fixed percentage below [2] Bank Rate, whatever that may be.

The difference between the **Market Discount Rate** for bank bills and those quoted for fine trade bills is due to the greater amount of risk attaching to trade bills. It will also be noticed that short usances are usually discounted at cheaper rates than bills due several months ahead, the reason being that long-dated maturities (*a*) entail a "lock-up" not conducive to full utilization of funds, and (*b*) a remote due date tends to increase the risk Rates do not vary proportionately to the usance, however, because bankers and dealers are above all anxious to arrange their books in such a way that they may rely upon funds coming in at such dates as they will be in need of them ; so that the demand for say June bills may be no greater than for those falling due in July, in which case the rates quoted for both maturities may be equal

"Overnight" **Money Rates** follow more closely the immediate requirements of the market, and may jump at the end of the day to a relatively high figure, owing to the fact that brokers who need accommodation at the end of one day, but know they will be in funds again the next, prefer to borrow for the night at a high rate rather than go to the Bank of England for a loan which would be granted only for a fixed period of three to ten days.

[1] But the rate actually charged to regular customers who keep their account at the Bank is the current market rate

[2] Two per cent. below at the present time (1922).

The Bank Rate may be regarded as the Regulator of the money market. A rise in the Bank Rate, by making access to the Bank of England Reserve more expensive, creates the scarcity which is necessary to bring about a general increase of discount and money rates. Usually the market responds at once to any movement in the Bank Rate, which is usually increased before a drain actually takes place, and is regarded as a reliable indicator of monetary conditions as they are or will be in the immediate future. An increase in the market rates, if sufficient, must eventually have the effect of checking the demand for advances and attract deposits, with the result that reserves are replenished, market rates become easier, and a reduction in the Bank Rate, followed by a period of cheaper money, ensues.

If the market rates should fail to move in sympathy with the official minimum, the market is said to be hostile to the Bank. The latter institution has on such occasions been known to borrow from the market, or even to sell securities "for cash" and simultaneously buy them in again "for the account," in order to increase the demand for money and force rates upwards.

Dear and Cheap Money.—The influences which bring about a shortage of currency or increase the demand for it, and thereby induce a rise in the Bank Rate, may be summarized as follows .

1. Export of Gold Bullion ;
2. Trade Activity ;
3. Holiday and Harvest Expenditure ;
4. Government Borrowing ;
5. War and Civil Disturbances.

Conversely (i) the import of gold, (ii) a trade "slump," (iii) public saving, and (iv) State economy produce the opposite effect of increasing the supply of or reducing the demand for currency, and consequently inducing a fall in the Bank Rate. It is doubtful whether peace is in itself

a sufficient influence to bring about easier monetary conditions, except in so far as it brings retrenchment and restores confidence ; but (v) the removal of social discontent certainly has that effect. Of course the many influences affecting the money market are capable of a far more detailed classification, but the above has the advantage of brevity and, it is hoped, greater clearness and more logical arrangement than those hitherto attempted.

1. *Gold Movements.*—Before the war of 1914-18 London was a "free market for gold." That is to say gold could be coined freely at the Mint without charge, sovereigns were freely given by the Bank of England at par value, and no restrictions were placed on the import and export of gold. Under such conditions withdrawals of gold for export were frequent, for whenever foreign exchanges went against us, or a shortage of the metal occurred in any foreign centre, gold immediately left these shores, and at times shipments were so large as seriously to deplete the Reserve.

EXAMPLE.—When gold was required for shipment, the exporter bought it from the Bank of England with a cheque drawn on his own bank Notes were taken from the Reserve and transferred to the Issue Department, where they were cancelled and the gold represented by them delivered. At the same time the clearance of the cheque reduced the Bank's liabilities. The items "Notes" and "Other Deposits" therefore decreased in equal quantities, and the *Proportion* of the Reserve fell.

It is therefore not surprising that the money market was more susceptible to movements of gold bullion than to any other influence. These movements were reflected in the Bank Rate. A raising of the discount rate had the immediate effect of retaining gold which would otherwise have been shipped abroad, and of attracting remittances to London to take advantage of the higher rate.

With the disappearance of gold standards all over Europe, and the chaotic fluctuations of exchange rates on those countries which have no stable currency, it has been necessary to impose restrictions on the removal of gold for export. Nevertheless, gold is still the basis of our currency, and as international relations become more settled, and

gold returns to circulation, bullion movements will in all probability again become the dominant factor of supply and demand in the money market.

At the present time, apart from the notes of the Scottish and Irish banks (which are not actually legal tender), the currency in circulation and in bank reserves consists of:

1. Gold and subsidiary coin, and Bank Notes representing coin ,
2. The fiduciary issue of the Bank of England ;
3. Currency Notes.

Our currency laws fix the amount of the Bank's fiduciary issue, and prohibit any increase in the issue of Currency Notes There exist therefore no means whereby the full legal tender currency (neglecting subsidiary or token coins) may be augmented or diminished except (i) the import or export of gold, and (ii) the consumption of gold for use in the arts (The presentation for minting of gold already in use in the arts does not normally take place)

2 *Trade Activity*—A period of trade activity has the double effect of (*a*) increasing bankers' liabilities on current accounts and (*b*) increasing the demand for coin and notes Trade and industry, having to execute a greater number of orders, are dependent upon the banks for the provision of additional working capital to deal with them. This means an increased demand on the Banks to discount bills and allow overdrafts, by the granting of which the banks' liabilities become greater, without any addition being made to their reserve. On the contrary, increased employment, enhanced wages and the natural tendency of a period of prosperity to increase retail purchases, result in a depletion of the item " Cash in hand and at the Bank of England." The ratio of cash to liabilities is therefore adversely affected from both sides, and the banks are obliged to husband their resources with a view to stability rather than profit. The bill brokers also are faced with an increased volume of

business, and, not being able to borrow so much from the joint-stock banks, have to go to the Bank of England for accommodation. A drain on the Bank of England Reserve follows, and the Bank Rate is raised With the repayment of loans and the decline of activity the banks' liabilities are diminished, deposits increase, and discount rates regain a more normal level.

EXAMPLE.—The effect of commercial borrowing on the Bank Return is seen as follows: The credit granted in favour of the borrower increases the Bank's liabilities under "Other Deposits." On the other hand the asset "Other Securities" is increased by the same amount, viz the value of the bills discounted or amounts guaranteed in letters of charge. Collateral security does not of course figure in the Return.

As an indicator of the prosperity of trade the monthly **Statistics of the Board of Trade** are of particular usefulness, showing as they do an analysis of the country's imports and exports The weekly **Returns of the Bankers' Clearing House**, published each Friday in the leading newspapers, are not quite such a good barometer of general trade as they used to be, the huge operations of the money market tending to obscure their usefulness to some extent, but a period of activity or depression in both home and foreign trade may still be clearly discerned from the figures given.

EXAMPLE. The following Annual Summary shows a marked decline in all the London clearings from 1920 to 1921, due to the unprecedented trade 'slump' that commenced in the early part of 1921.

	1921	1920	Decrease
	£	£	£
Grand Total - -	34 930 559,000	39,018,903,000	4,088,344,000
Town Clearing - -	30 268,214,000	32 852,933,000	2,584,719,000
Metropolitan - -	1,460 166,000	2,093,750,000	433 584,000
Country cheques - -	3,002,179,000	4,072,220,000	1 070 041 000

In comparing the 1920 figures with those of other years it should be remembered that they represent greatly inflated values, as in that year the depreciation of the currency through inflation (*q.v.*) was at its maximum.

3. *Harvest and Holiday Expenditure.*—Though England is the birthplace of modern industry, and its population is engaged chiefly in trading and manufacture, a census of

the total production of Great Britain and Ireland shows that agriculture is still the greatest source of wealth in these islands.[1] From the financial standpoint, agriculture differs from other industries in that its demands for capital are intermittent, and are therefore particularly effective in influencing money rates. These demands also have the peculiarity of recurring at regular intervals, so that although the need of advances to meet expenditure at harvest time causes a strain on the cash reserves of the banks throughout the country, the fact that it is not unexpected makes it more easy to cope with.

Withdrawals of legal tender for the summer, Christmas and Easter holidays also have a noticeable effect on the market, as may be seen from the newspaper cutting reproduced on p 130. This influence varies to a great extent in sympathy with the state of trade, a period of trade depression being necessarily concurrent with a reduction of personal expenditure.

4. *Government Borrowing* —It is perhaps a defect of our banking system that Public Finance is capable of exerting an overwhelming influence on the money market Though the financial requirements of trade are far greater than those of the government, the latter (through the Bank of England) strike at the heart of the monetary system, with the result that rates are affected considerably more than they would be by the establishment of an equal amount of credit at the other banks.

Government borrowing may take the form of (*a*) an addition to the temporary, unfunded or *Floating Debt*, or (*b*) an addition to the permanent or *Funded Debt*. The first consists of (1) **Ways and Means Advances** by the Bank of England for short periods, (2) the issue of **Treasury Bills** maturing at three, six or twelve months, and (3) the issue of **Treasury Bonds** redeemable in say five years or more. An analysis of the floating debt is published with the **Revenue**

[1] In 1907 agriculture earned a total revenue of 210 millions sterling, as against 153 millions produced from iron and steel, which took the second place.

Return in the leading newspapers. The following is an example, dated 8th April, 1922.

	April 8.	Compared with March 31
Advs by Bk of England -	£8,500,000	+ £8,500,000
Advcs. by pub depts -	176,151,500	+ 28,850,000
Treasury bills outstanding -	825,634,000	− 56,585,000
Total	£1,010,285,500	−£19,235,000

On April 9, 1921, the floating debt amounted to £1,293,701,000

The Funded Debt consists of loans redeemable at a fixed but remote date or, like Consols, stocks redeemable at the option of the Government.

The effect of an advance to the Government on Ways and Means A/c is reflected in the Bank Return as follows :

Example.—The Government having applied to the Bank for a loan of say £10,000,000 to supply funds required pending receipts from taxes or other revenue, credit to that amount is opened in the books of the Bank in just the same way as any other banker enters a loan to the credit of his customer's current a/c. The liability "Public Deposits" is thus increased, and the security given for the loan goes to swell the asset "Government Securities" in the Banking Department to an equal extent. *The Proportion of the Reserve consequently falls.*

Now the Government, having additional credit at the Bank, proceeds to pay contractors and other creditors by means of drafts drawn on the public account. The collection of these drafts results in transfers in the books of the Bank, whereby "Public Deposits" fall and "Other Deposits" rise. The effect on the joint-stock banks is to increase their deposits and "Cash at the Bank of England," thus *improving the ratio of their cash to liabilities.*

In view of their stronger position the banks are now able to increase their liabilities to the extent of five or six times the amount of the surplus thus gained, without making the ratio of cash to liabilities any worse than it was before. The opportunity is utilized by granting additional facilities to trade, or by the purchase of Treasury Bills. If the latter course is adopted the **Inflation of Bank Credit** is still further increased, because the Government is thereby provided with further credit, which when spent will again return to the joint-stock banks in the shape of increased deposits and balances at the Bank of England.

These movements are of course carefully watched by the directors of the Bank, who raise the discount rate whenever it becomes necessary to protect the Reserve.

The next example illustrates the effect of a large public subscription to a government loan, as reflected in the Bank Return.

EXAMPLE.—Cash subscriptions having been received by the Bank for a new issue of 5¾% Exchequer Bonds, the Return for the week ending 3rd March, 1920, showed the following figures. The second column gives the increases and decreases for the week:

Government Deposits	£22,438,621	£5,116,561 inc
Other Deposits	135,411,806	37,412,949 dec
Government Securities	52,720,786	32,431,737 dec
Other Securities	92,331,805	1,627,279 inc
Coin and bullion	113,597,892	3,152,193 inc
Reserve	30,892,932	1,476,327 dec
Ratio to liabilities	19 6 p c	2 6 p c inc

Of the £37,412,949 by which private deposits were drawn down in payment of the Bonds, £32,431,737 went to reduce Government securities, and £5,116,561 was added to the Government balances. The effect of these operations was therefore an *Increase in the Proportion of the Reserve.*

Quite as interesting to City men as the weekly movements of the Bank Return are the rates at which Treasury Bills and Treasury Bonds are issued to the market Every week a certain amount is offered for public tender at the Bank of England, allotments being made to the highest bidders in full, and the balance divided among the next best as a percentage of the amount each offered to take up. A certain quantity is also obtainable "on tap," *i e* as they may be required and at a fixed rate. The following report shows the extent to which Treasury Bill and Bond rates are regarded as an indicator of monetary conditions.

Friday Evening 7th April, 1922

The high price at which the Five per Cent Treasury Bonds were tendered for was even more surprising than the cheapness of Treasury bills, and it seems to indicate considerable confidence in a lower value for money, whether the Bank rate is reduced or not

TREASURY BILLS AND BONDS

Applications for the £60,000,000 Treasury bills and bonds amounted to £118,596,800, and the £15,000,000 of Treasury bonds offered were allotted at an average price per cent. of £100 15*s* 0 44*d* —nearly 1 per cent higher than a week ago Tenders for bills dated on every

working day next week at £99 6*s* 8*d* received about 45 per cent, and above in full, the average rate per cent being £2 13*s* 1 68*d*, or close on ¼ per cent below last week's average The new "tap" rate, consequently, will be 2⅝ per cent In the table below the results of the Treasury bills are given at different dates

1922	Amount	Applied for	Average p c
March 3 - -	35,000,000	45,805,000	3 3 1 14
March 10	35,000,000	58,270,000	3 3 1 81
March 17	*45,000,000	*70,825,700	3 7 2 78
March 24	*60,000,000	*95,512,200	3 2 6 3
March 31	*60,000,000	*105,935,000	2 17 11 31
April 7	*60,000,000	*118,596,800	2 13 1 68

(* Treasury Bills and Bonds)

Tenders will be received on Thursday next for Treasury bills and bonds to a maximum amount of £65,000,000, the issue of Treasury bonds being limited to £20,000,000

Of recent years the payment of taxes has caused a considerable demand for credit, as the burden has increased to such an extent that many firms are obliged to borrow from the banks to enable them to meet it.

5. *War and Civil Disturbances*—The effect of war or civil commotions on the money market may be summed up in the statement that hostilities of any kind produce a *lack of confidence*—a failure of credit—and consequently a desire to exchange all such intangible property as credit, bills, stocks and shares, for tangible property the value of which is less affected by contingencies The man whose possessions consist of goods, including gold or silver coin, can regard political upheavals with greater equanimity than the investor, whose income is contingent upon the fulfilment of obligations by foreign governments or the successful working of industry. In other words, when the machinery of civilization is endangered by rumours of war or anarchy, "a bird in the hand is worth two in the bush"; investors rush to sell their securities, thereby causing a "slump" in the stock markets, and creditors claim payment in coin The result is a financial crisis, for supplies of currency invariably prove insufficient to meet the demand.

No better example of the influence of war on the money market could be chosen than the Great European War which devastated Europe from 1914-18.

Though England did not enter the conflict until the 4th August, 1914, soon after the declaration of war by Austria on the 24th July, the London banks and finance houses began to call in money due from foreign countries. The heavy demand

for bills payable in London resulted in a breakdown of the exchanges, and thus checked the liquidation of debts. On the other hand, the prospect of war with Germany resulted in an unprecedented selling of securities on the London Stock Exchange for the account of German and other foreign subjects.

The monetary crisis was due, in the first instance, to international rather than to domestic causes, for in time of war investors who have any property abroad naturally seek to recover its value—to snatch the brand from the burning—before it is too late. Once started, the drop in prices of securities led to a general rush to liquidate, and it became necessary to close the Stock Exchange to check the panic. Nor was the demand for currency confined to this country. Already the Continental bourses had closed their doors, and New York followed immediately on London. On the Continent the banks were besieged by depositors clamouring for repayment in coin.

The Government, in addition to (1) closing the Stock Exchange, (2) declared a **Moratorium**, *i.e.* a legal postponement of all debts ; (3) made arrangements with the Bank of England to grant credits at 2% above Bank Rate, and at the risk of the Government, to provide funds for the payment of bills which acceptors were unable to meet, and to continue loans against Stock Exchange securities ; and (4) authorized the Treasury to issue currency notes, at the same time decreeing an extension of the August Bank Holiday to three days to give time for the notes to be printed, and a suspension of the Bank Act (see p. 94).

Naturally the Bank of England, besides co-operating in the Government measures described above, raised the official discount rate. On the 30th July, 1914, the Bank Rate was 4% ; but that rate endured for one day only, for on the 31st July, amid great excitement, it was finally lifted to 8%, and on the 1st August there was a 10% Bank Rate, which lasted until the 6th.

The Currency and Bank Notes Act was passed on the 6th August, 1914, authorizing the Treasury to issue Currency Notes for one pound and for ten shillings as legal tender throughout the United Kingdom. The internal demand for legal tender would probably not have been sufficient to make these notes necessary, had not the deposits of the Bank of England increased greatly by the creation of the credits referred to in the last paragraph. As the war

continued, however, renewed Government borrowings had the inevitable effect of inflating bank credits, as explained on p. 137. This led, in conjunction with other causes, to a great rise in wages and prices generally, and a correspondingly greater demand for legal tender, which could not have been met under the conditions created by the Act of 1844. The issue of currency notes was not, as is too often imagined, a ruse on the part of the Government to make revenue ! If the currency had not been augmented to correspond with the inflation of credits, and consequent dwindling of the purchasing power of the currency, bankers would simply not have had enough legal tender to meet cheques drawn for cash on their customers' accounts.

The manner in which the Currency Note Account at the Bank of England is kept may be seen from the return published every Friday morning in the daily press. This Account stood, on the 15th March, 1922, as follows :

CURRENCY NOTES.

The amount of Currency Notes and Certificates outstanding on March 15 showed a decrease of £69,076 10s., as compared with the previous week. The details follow.

	Mar. 15.	Mar 8.
	£	£
Total issue	298,674,916	298,743,992
Called in but not cancelled	1,664,084	1,669,285
Investments reserve	13,570,869	13,300,731
Total liability	313,909,869	313,714,008
Fiduciary Issue	250,724,916	250,793,992
Maximum Issue	309,988,395	309,988,395

ASSETS HELD AGAINST NOTE ISSUE.

	Mar. 15.	Mar 8.
	£	£
Gold Coin and Bullion	28,500,000	28,500,000
Silver Coin	5,000,000	5,000,000
Bank of England Notes	19,450,000	19,450,000
Government Securities	260,804,162	260,578,576
Balance at Bank	155,707	185,431
Ratio Gold and B E. Notes to Issue	16 1 p.c.	16 1 p c.

Under the powers given by the Act the Treasury undertook to issue Currency Notes through the Bank of England to

bankers, as and when required, the amount of notes issued to each bank to be treated as an advance bearing interest at the current bank rate. Actually the banks, instead of treating the notes as a loan, paid for them outright out of their balances at the Bank of England, an operation which had the effect of transferring the amount of notes purchased from "Other Deposits" to "Public Deposits." The credit thus held at the disposal of the Government was quickly absorbed in war expenditure, thus returning to the banks in the form of increased deposits and "Cash at the Bank of England," improving the ratio of their cash to liabilities, and enabling them to invest in further issues of war loan and assist their customers to subscribe thereto by instalments.

As the banks were thus able to obtain unlimited supplies of legal tender from the Bank of England without drawing notes from the Reserve, the normal safeguard of raising the Bank Rate became unnecessary. At the same time the Government, by incurring a floating debt of just over £1,000,000,000, provided the public with means, in the shape of expanded bank credits, of subscribing to war loans amounting to no less than £8,000,000,000.

The consequences of inflation may be seen from a comparison of the Bank Returns published just before the war and those issued during 1920, when the emission of currency notes had reached its height and measures were taken to prevent any further increase. A continual decline in the Proportion of the Reserve is noticeable, from over 50% in 1914 to less than 10% in 1920.

The process of deflation is visible in the Revenue Returns, to which reference has already been made.

A significant fact in connection with deflation is that it has been accompanied by a great depression of trade. Evil as may be the results of inflation, unfortunately the process of deflation brings with it a period of falling prices, loss of trade, and widespread unemployment.

Both Bank Notes and Currency Notes are legally redeemable in gold coin at the Bank of England, though naturally the cashing of notes is strongly discouraged. Moreover, the restrictions of gold export and legal prohibition of the melting of gold coin have had the effect of protecting the

Reserve, and incidentally have severed the link between gold coin and bullion.

[1] **The Foreign Exchange Market** is any place where foreign moneys are bought and sold. Though dealing in foreign coin and notes is a form of foreign exchange, it plays but a minor part in commerce. Foreign credit—the right to payment in foreign centres—is the principal commodity dealt in on the Foreign Exchange Market.

In London the centre for such dealings was formerly the hall on the ground floor of the Royal Exchange, where every Tuesday and Thursday the various foreign exchange dealers, brokers and bankers, used to meet to deal in bills payable in foreign places. Bargains were recorded, and at the close of the day a list was prepared and issued to the press. It appeared on the next day—Wednesday or Friday—in the financial column, labelled " On 'Change " or " London Course of Exchange." A separate table appeared every day, showing the rates quoted on foreign centres for sterling bills and transfers

The fluctuation of exchange rates brought about by the withdrawal of gold from circulation has had the effect of greatly increasing the volume and the speculative nature of foreign exchange dealings. The market is now situated in no particular building. Dealers have come to make more frequent use of the telephone and telegraph for purposes of communication, and are kept in touch with movements on other centres by means of the **Tape Machine.**

In addition to foreign exchange dealers, various banks, stockbrokers, clubs and private speculators, who subscribe to the Exchange Telegraph Co., have a tape machine, by means of which they are kept in constant touch with the foreign exchange rates and stock exchange prices ruling throughout the day. The prices are called **Tape Prices,** and the fact that they are an unbiassed record of the actual prices ruling at the times stated causes them to be accepted as the basis for option dealings, and many other transactions in which it is necessary for contracting parties to come to a proper understanding as to what the true market price is

[1] See also chap. XI., pp. 289 to 290.

The newspaper reports of Foreign exchange rates quoted in London are collected daily from various dealers. The following examples are taken from the *Westminster Gazette*, dated 17th March, 1921:

LONDON RATES OF EXCHANGE.

Place.	Method of Quoting.	Par of Exchange.	16 Mar.	15 Mar.
New York	$ to £	4 86⅔	4 33½-4 35⅛	4 34¾-4·35¼
Montreal	$ to £	4·86⅔	4·49¼-4 50½	4 46-4 47
Paris	Fr. to £	25 22½	48 40-48 80	48 35-48 45
Brussels	Fr. to £	25 22½	52 35-52 65	52 40-52 45
Italy	Lire to £	25 22½	85⅞-86⅜	85¼-85½
Switzerland	Fr. to £	25 22½	22 35-22 36	22 32-22 34
Athens	Dr. to £	25 22½	98½-99	97¼-97¾
Helsingfors	M to £	25 22½	202-210	204-206
Madrid	Pts to £	25 22½	27 90-27 95	27 85-27 89
Lisbon	Escu	53⅓*d*	4½d	4$\frac{9}{16}$*d*.
Amsterdam	Fl to £	12 107	11 52½-11 53½	11 53-11·54
Berlin	M to £	20 43	1,175-1,193	1,165-1,170
Vienna	Kr to £	24 02	30,000-32 000	33,000-35,000
Budapest	Kr to £	24 02	3,400-3,600	3,200-3,400
Prague	Kr to £	24 02	243-248	240-245
Warsaw	M to £	20 43	18,000-19,000	18,000-19,000
Bukarest	Lei to £	25 22½	580-600	585-600
Constantinople	Pst. to £	110	650-670	650-670
Belgrade	Din. to £	25 22½	300	nominal
Sofia	Lev to £	25 22½	650	650
Christiania	Kr. to £	18 159	24 95-25 21	24 53-24 58
Stockholm	Kr. to £	18 159	16 69-16 73	16 72-16 74
Copenhagen	Kr. to £	18 159	20 65-20 92	20 52-20 55
Alexandria	Pst to £	97½	97$\frac{7}{16}$	97$\frac{7}{16}$
Bombay	Per rp	24*d*	1/3⅝	1/3⅝
Calcutta	Per rp	24*d*	1/3$\frac{19}{32}$	1/3$\frac{19}{32}$
Hong-kong	Per doll	—	2/5¼	2/5¼
Yokohama	Per yen	24 58*d*	2/2$\frac{7}{16}$	2/2⅜
Shanghai	Per tael	—	3/2¼	3/2¼
Singapore	Per doll	—	2/3$\frac{11}{16}$	2/3$\frac{11}{16}$
Manila	Per doll	24 066*d*	2/2¼	2/2¼
Rio de Janeiro	Per ml	27*d*	7$\frac{21}{32}$*d*	7$\frac{13}{16}$*d*
Buenos Aires, T T	Per doll	47 58*d*	44⅞*d*	45$\frac{3}{16}$*d*
Valparaiso, 90 days	$ to £	$13⅓	38 30*d*	38 60*d*
Montevideo, T T	Per doll	51*d*	44⅜*d*	44½*d*
Lima	Eng to Peru £	Par	24% prem.	24% prem
Mexico	Per doll	24 58*d*	2/2½*d*	2/2½*d*

The Commercial Bank of Spanish America, Limited, supply the following list of Central and South American exchanges which were ruling on the dates specified:

Place	Date	Rate.		Par.
Ecuador	Mar. 11	16 15	Sucres to £1	10 0
Venezuela	,, 8	23 95	Bolivares to £1	25 25
Colombia (Bogota)	,, 7	98 50	Dollars to £20	100 00
Nicaragua	,, 3	4 60	Cordobas to £1	4 86⅔
San Salvador	,, 7	9 00	Colones to £1	9 73
Guatemala	,, 11	224 40	Pesos to £1	90 23
Costa Rica	Feb. 4	18 75	Colones to £1	10 45
Bolivia	Jan. 21	14*d*	Pence to Boli	19 2

Mint Par of Exchange.—One of the most disastrous consequences of the Great War, and the "snarling"[1] reluctance of European countries to heal each other's wounds and let bygones be bygones, has been the collapse of that stable system of international payments without which a healthy state of foreign trade is impossible.

Before the war external, as well as internal, exchange was conducted on a metallic monetary basis. Prices expressed in the currencies of two gold standard countries could be compared by reckoning the relative quantities of pure gold represented by each. But the essence of a gold standard is that notes must always stand at absolute parity with gold coins at their face value, and both notes and gold coins must stand at absolute parity with gold bullion. When these conditions are fulfilled, the foreign exchange rates with all countries possessing an effective gold standard are maintained within narrow limits

The true gold parity between two currencies is known as the Mint Par of Exchange To compute it the weight of pure gold contained in each unit is ascertained by reference to the currency laws of the issuing country, and a ratio obtained by dividing one quantity by the other. The value of the alloy is neglected.

EXAMPLE.—Given that the English sovereign is enacted to contain 123·274 grains of gold $\frac{11}{12}$ fine, and that the United States golden eagle ($10) should contain 258 grains of gold $\frac{9}{10}$ fine, find the number of dollars which is equal to £1 at Mint Par of Exchange. Neglecting the value of the alloy—

$$
\begin{array}{ll}
x \text{ dollars} & = £1, \\
£1 & = 123{\cdot}274 \text{ gold } \tfrac{11}{12} \text{ fine}, \\
12 \text{ grs. gold } \tfrac{11}{12} \text{ fine} & = 11 \text{ grs. pure gold}, \\
9 \text{ grs. pure gold} & = 10 \text{ grs. gold } \tfrac{9}{10} \text{ fine}, \\
258 \text{ grs. gold } \tfrac{9}{10} \text{ fine} & = 10 \text{ dollars};
\end{array}
$$

$$\therefore\ £1 = \$\frac{123{\cdot}274 \times 11 \times 10 \times 10}{12 \times 9 \times 258} = \$4{\cdot}8665.$$

[1] A figure of speech appropriately applied in this connection by Mr. Lloyd George before the Genoa Conference in 1922.

It is also possible to compute a mint par of exchange between two silver standards, but no such comparison can be established between a gold currency and a silver currency, except by reference to the relative prices of gold and silver bullion, whereby a variable ratio may be obtained, but not a fixed one.

The effect of bullion prices on exchange rates may be seen *in the case of the* Indian currency. The price of silver in London governs the exchange rate on India in so far that if the exchange rate becomes lower than the laying-down price of the pure silver in a rupee here, silver will be drawn from India to this country for sale at the better price, thus either reducing the London price of silver or bringing up the exchange.

The Bullion Market is linked in a similar manner to all Eastern Exchanges and, to a certain extent, prices for gold bullion in London govern the New York exchange. Reference to these matters may be seen almost every day in the newspaper reports of the Bullion Market.

Specie Points.—" Specie Point " or **Gold Point** is the rate of exchange at which bank credit may be purchased in any foreign country by the shipment of gold to that country. It is evident that if the price of bills on any place exceeds the cost of sending gold the demand for bills will cease, and gold coin or bullion will be shipped to that place to be there converted into money at mint parity

The gold points vary according to the cost of packing, freight, insurance, commission, and loss of interest. In some countries which formerly had an effective gold standard the removal of gold for export was discouraged at certain times by charging a premium, which had, of course, to be included in the calculation of gold points. In the case of France the gold points for and against us were about one per mille over and under par respectively. Normally, therefore, the demand for London bills in Paris ceased at 25·32 and, conversely, Paris bills seldom realized more than £1 per Fr. 25·12 in London.

Sight and Long Rates.—Under normal conditions rates of exchange are specified to apply to Telegraphic Transfers, Cheques, or Bills at usance. The T.T. rate is usually the same as that quoted for cheques, but the remitter pays the cost of the telegram. The usance bill is, however, invariably cheaper than the sight draft, because the receiver must either wait until due date to realize the bill, or discount it and thus receive less than its face value. In order to put the receiver in funds at once a usance bill would have to be drawn for a higher amount than the remittance required so as to allow for discount.

Therefore, to calculate the long rate which would be equivalent to a given quotation for sight drafts, an allowance should be made for discount for the length of the usance at the rate of discount ruling at the centre where the bill is payable. A further allowance has to be made for the stamp duty amounting to ½ per mille, to which usance bills are subject.

EXAMPLE.—Find the rate for 3 mos. usance on Switzerland which would be equivalent to a sight quotation of 22 35, discounts ruling in that country at 3½%

Sight rate - - - -	22·35
Add 3 mos. int. at 3½%, say -	19½
Add Stamp Duty - - -	01⅛
3 mos. Usance should be - -	22 55⅝ including duty.

Obviously discount should be calculated on the face value, not the discountable value of a bill; but as the rates are never quoted in very small fractions the above method will be found sufficiently accurate.

A table somewhat like the following, showing the discount rates ruling abroad, is often appended to the foreign exchange report in the financial column :

Below are set out the ruling official minimum discount rates of all the European State Banks, with the date when the last change was made

Bank of	Last change	Rate %	Bank of	Last change	Rate %
England -	Feb 16, '22	4½	Switzerland	Mar 2, '22	3½
France - -	Mar 11, '22	5	Spain - -	Nov 4 '20	6
Germany -	Dec 23, '14	5	Portugal -	Sept 3[illegible] '20	7
Holland -	July 1, '15	4½	Sweden -	Mar 10, '22	5
Austria -	Apr 14, '21	6	Norway -	Jan 25, '22	6
Italy - -	Feb 17, '22	5½	Denmark -	Nov 5, '21	5½

Where dealers quote two rates, one for sight and the other for 3 months or 90 days remittances, drafts at shorter usances are usually obtainable at what is known as a **Tel Quel Rate**, *i e.* a rate proportionate to the sight and long rates, with full allowance for stamp duty if included.

Fluctuations in Exchange Rates.—The rates of exchange on a foreign country are said to be "favourable" to us when remittances to that country are cheap. By becoming dearer, such remittances are said to move against us, or to become "unfavourable."

Assuming the *inherent value* of a currency for internal purposes to remain constant (neither depreciating nor appreciating), then its *exchange value* in other countries must depend upon the **Balance of Payments** inwards and outwards. If the country has to pay more than is due to it, the demand for foreign credit must exceed the supply, foreign credit therefore becoming dearer—exchanges become unfavourable. Similarly the demand for remittances to a creditor country moves the exchanges in its favour.

The state of foreign exchanges affects the price of commodities, in so far that (*a*) if rates move against us we have to pay more for imported goods, and (*b*) credit here being cheaper, the foreigner's purchasing power is increased, so that the home buyer suffers from competition with the exporter; moreover, the benefit of high prices to the producer is more apparent than real, for he has to pay more for what he buys. On the other hand, a favourable movement in the foreign exchange market (*a*) encourages imports, (*b*) discourages exports.

The truth of the matter is that exchanges are most favourable to trade generally when they stand at par.

Under normal conditions high exchange rates in London cause a temporary improvement in monetary conditions in that centre. Bills payable in London being dear, gold arrives from abroad, thereby increasing our reserves, reducing the Bank Rate, and encouraging trade by a freer supply of capital. Shipments of gold bullion, by reducing the demand for bills, ease the exchanges in favour of the

exporting country. Sooner or later the pendulum swings the other way: gold is again called for export, the Bank Rate is raised to protect the Reserve, gold shipments cease, and London bills are again in request.

The causes of fluctuation, leading in some cases to a complete breakdown of foreign exchanges, may be classified as:

1. Political;
2. Economic; and
3. Speculative, or Transient.

1. *Political Influences.*—Of these the greatest, and most disastrous to the economic life of the world, is War. On the outbreak of hostilities there is a general rush to realize foreign securities, and the banks withdraw deposits held in foreign towns, thereby increasing the demand abroad for bills wherewith to remit the proceeds. As war proceeds, the purchase of war material creates a demand for foreign credits, whereas the weakening of exports causes the supply of such credits to decline. Gold being withdrawn to enable the Government to use it in the best interests of the nation, exchanges break away past the gold points, and as they move against countries which are the weakest financially the burden of high prices is added to the strain of war finance.

During and after the war of 1914-18, various European governments took measures to alleviate the economic burden of demoralized exchanges by (*a*) restricting imports, (*b*) fixing arbitrary rates as the maximum which it was legal to offer for foreign bills, or (*c*) maintaining export prices.

EXAMPLES.—(*a*) Our own *ad valorem* import duties were introduced as a war measure, to save shipping tonnage for necessary imports, and to check the wastage of foreign credit by expenditure on imported luxuries.

In many countries goods were not allowed to enter unless the importer could produce an Import Licence. The Italian government, in addition to making import licences compulsory, formed a department known as the *Instituto Nazionale per i Cambi con l'Estero*, to monopolize the business of dealing in foreign exchange.

(*b*) The Portuguese government issued a Decree (No. 6478) which had the effect of fixing the exchange at the artificial rate of 17$\frac{3}{8}$*d.* per escudo, and compelling the banks in Portugal

collecting bills drawn in sterling to accept payment in escudos at the official fixed rate. This measure was doomed to failure, for it simply resulted in the impossibility to buy drafts on London at that price.

(c) In 1921 the German Government attempted to compensate for the ruinous rise in prices due to depreciation of the mark, by putting a corresponding increase on export prices. Exporters had to submit all quotations to a Committee, which fixed the price in foreign currency at an economic figure.

Internally, enhanced prices necessitate an increased supply of currency, which can only be provided at the cost of inflation and consequently further depreciation of the currency, a slump in Government securities, and finally reluctance on the part of the public at home as well as abroad to subscribe for new issues.

If to the strain of war is added that of a heavy War Indemnity, the burden is likely to become so great as to depreciate permanently the internal, as well as the exchange value of the currency beyond all hope of recovery to par. The amount of gold in the possession of the defeated country, together with the value by which its exports may exceed its imports, being insufficient to purchase the enormous amounts of foreign credit demanded by the victors in payment, more and more currency has to be offered to purchase such credits. In other words, foreign credits cannot be bought with goods, so the debtor has nothing more to offer for it than his credit, which becomes a drug on the market, and in the end has to be offered at a ruinous rate of exchange before any exchange dealer will "look at it" The effect of war reparation may be seen in the German and Austrian exchange rates quoted on p. 144.

The effect of a Foreign Loan is to improve exchange rates for the borrowing country, by the provision of a large volume of foreign credit which can be drawn on in liquidation of indebtedness.

Social unrest affects the exchanges by decreasing exports, especially if it takes the form of strikes in such essential industries as coal or transport. Civil war depreciates the exchange by destroying confidence and stopping the normal activity of the nation. In 1922 the notes issued by the Russian Bolshevik government stood at no less than 10 million roubles to the £.

2. *Economic Influences.*—First among these is the **Balance of Trade**, or the difference in value between the country's imports and exports.

In the case of Great Britain, whose imports normally far exceeds its exports, this difference is made good by what are known as **Invisible Exports**, *consisting of Freights, Commissions, Income from Investments and other revenue not* derived from trading transactions.

Stock Exchange dealings for foreign account act on the exchanges in the same way as the import or export of goods.

EXAMPLE.—An English dealer, having bought securities through the Paris Bourse, requires a draft on Paris wherewith to pay for them, whereas the French dealer will require drafts on London to settle for sales on London account, purchases through the London Stock Exchange, or even differences arising from speculative transactions for English clients

In a similar manner subscriptions for foreign capital issues react on the demand for remittances.

3. *Transient Influences.*—Under this heading may be grouped all those transactions in foreign credits the object of which is to derive profit from the difference between the rates ruling at the times of purchase and sale. The dealer who buys to sell again does not thereby permanently affect the demand for the commodity purchased, but his action may send prices up for the time being, and by replenishing the supply depress prices again when he sells out.

Arbitrage, which consists of buying in one place and selling in another, tends to bring the prices ruling in those places to a common level.

EXAMPLE.—Having sold a draft on Paris at a certain rate, a London dealer may find that he can put his Paris correspondent in funds for less than the price at which he sold the draft by buying a bill on Madrid and sending it to Paris to be sold at the current rate ruling there for pesetas.

The effect of this *Indirect Exchange* is simply that Madrid has to pay Paris instead of paying London.

Clearing Bills have an effect similar to arbitrage operations, but they are drawn in payment of definite shipments of goods. The term is applied to bills drawn under London accepting credits to finance trade between foreign countries, *e.g.* India and New York. (See also pp. 117 and 296).

Accommodation Bills.[1]—Foreign exporters are occasionally allowed by bankers in this country to draw in advance of shipments, in order to reap the advantage of the better rates ruling for London bills between the harvests, when few bills are drawn. More frequently advance credits are granted to bankers at foreign export centres, allowing them to draw when drafts on London can be sold locally at a good price, and to put the accepting bank in funds by means of bills which they purchase from local shippers, when drafts on London are cheap.

Investments in Bills react on the exchanges by increasing the demand for the time being and making the supply greater when these bills near maturity and are put on the market. London usances are a favourite form of investment among foreign bankers, who are glad to purchase them when the London Bank rate is high and usance bills can consequently be obtained at a cheap rate, or when they anticipate an adverse movement in the Paris exchanges.

Finance Bills are those which are drawn by foreign bankers on their correspondents in other countries for the sole purpose of raising money by purchasing them. By drawing such bills the banker is enabled to raise a considerable amount of money, which he can then put to remunerative use Such methods of finance have been found, however, to be a corollary of several bank failures. The unsoundness of the principle is accentuated when the drawing bank, unable to recover the capital thus raised before the bills mature, issues further drafts in order to raise money to buy a sight remittance to put the acceptors in funds for meeting the first

Forward Exchange Contracts are the most risky of all foreign exchange dealings. They have become necessary owing to the breakdown of the exchanges referred to previously, their object being to enable importers and exporters buying or selling in foreign currencies to secure themselves against the risk of exchange fluctuations. Incidentally, the development of forward dealings in foreign exchange has led to a veritable gambling mania, dealers having sprung up everywhere and advertising to induce the public to take part in it.

[1] See p. 103.

The Stock and Share Markets.—Like foreign exchange rates, the prices of Stock Exchange securities are affected by market influences which may be classified as (1) Political, (2) Economic, and (3) Transient or speculative.

1. *Political Influences.*—The depressing influence of war on the stock markets has been explained in other parts of this chapter.

War also leads to Government borrowing, which adds to the depression of existing securities by the necessity of offering higher rates of interest as one loan follows another, thus causing investors to sell old stocks and subscribe for new issues. In a word, borrowing on a large scale, from whatever cause, raises the price of loanable capital by diminishing the supply of it, thereby causing all existing securities to depreciate.

The effect of strikes may be seen principally in the quotation for Industrial shares. Such occurrences do not alter prices of debentures unless they threaten the very existence of the industries affected by them.

2. *Economic Influences.*—A period of trade activity, by improving profits, tends to favour the share market, but its influence on the prices of fixed interest-bearing investments is weakening. Harder discount rates tend to draw capital from public stocks and debentures, a movement with which dealers are so familiar that immediately a change in the Bank Rate is foreshadowed the prices of Consols and other Government Stock, Municipal and Railway Stocks take up new positions.

Prolonged trade activity also results in the issue of fresh capital by industrial and trading companies, which takes up part of the accumulated profits and dividends deposited in the banks.

Commodity Prices influence the value of shares in certain industries. The profits of railway and shipping companies depend to a great extent on the price they have to pay for coal, and as these profits are distributed in the shape of dividend, the link between the coal and the shares is not difficult to perceive.

Similarly, the market prices of petroleum, rubber, metals, etc., affect the value of Oil, Rubber and Mining shares.

3. *Transient Influences.*—Of these the greatest is pure **Speculation.**[1] *Bulling* is more common than *Bearing*, because it can be done on borrowed capital.

Arbitrage in securities affects prices in a similar manner to Arbitrage in foreign exchange or, for that matter, in goods—*e.g.* Cotton or Wheat. It tends to equalize prices, but does not permanently affect the general level of prices, which can only be determined by the relative intensity of **effective supply and demand.**[2] Such dealings are practically confined to *inter-bourse* securities, *i.e.* those stocks or shares which have an official quotation on the stock exchanges of more than one country.

Finally, the price of a foreign security is naturally influenced by the current Rate of Exchange on the country of issue.

The London Parity.—In looking down the financial columns of the newspapers the reader may have some difficulty in understanding the **Wall Street** (*i.e.* the New York) quotations. The following is a cutting from the report dated 16th March, 1922 :

MONEY AND EXCHANGE	To-day	Prev Day
Call Money - - - - -	3 3½	3 3½
Exchange on London 60 days -	4 31 12½	4 30 50
Do Demand Bills -	4 34 12½	4 33 25
Do Cable Transfers -	4 34 50	4 33 62½
Montreal Cable Transfers -	4 51 00	4 48 50
Exchange on Paris - - -	8 94	8 86½
Berlin cheques - - - -	0 36¼	0 36⅞
Silver Commercial Bars - -	99⅝	

STOCKS	London Parity Prices	Closing Prices To-day	Closing Prices Prev Day
Atch Topeka and Santa Fe -	111⅞	97⅛	97
Do Preferred - -	98¼	85⅞	85¼
Baltimore and Ohio - - -	43½	37⅞	37⅞
Canadian Pacific - - -	155⅝	135¼	136
Chesapeake and Ohio - -	69⅞	60¾	60½
Ch , Mil , and St Paul - -	26½	23	23

The Paris and Berlin Exchanges are quoted in dollars and cents per 100 frs. and 100 marks respectively.

[1] See p. 405. [2] See p. 411

The American stock prices are cabled over here in dollars per $100 Stock, and form the basis for the opening quotations on the London Stock Exchange. But as the cost of American stock to the English purchaser depends to a large extent upon the London-New York exchange, the American prices are for convenience converted here to what is known as **London Parity**. Every pound in this rate represents five dollars in the face value of the stock.

Exercise 5.

1. Give reasons for the importance of London as a banking centre.

2. What is the relation of the Bank of England to the commercial world? (S.A.tpc.II.)

3. State as shortly as you can the essential differences between (*a*) banks, (*b*) accepting houses, and (*c*) discount companies.

4. What is the function of the Bill Broker, and how does he earn his living?

5. What is the Money Market?

6. Explain what is meant by the following: 60-day Bills $4\frac{7}{8}$-5, 3 months' trade $5\frac{1}{2}$-6. Why should the quotation be higher in the second case? (S.A.tpc.III.)

7. What is the Bank Rate? What causes it to fluctuate, and why is it usually higher in the autumn? (S.A.tpc.III.)

8. Why is the market rate of discount often different from the bank rate? (S.A.tpc.III.)

9. What considerations govern the amount of capital available from time to time for employment in business? (S.A.II.)

10. How far is it true to say that modern commerce is conducted on a system of exchange? (S.A.tpc II.)

11. Explain briefly the British system of currency.

12. How does a change in the bank rate affect the trade and commerce of this country? (U.E.I.cc.Adv.)

13. How would you expect the Bank of England weekly return to be affected by the issue of a large government loan? (S.A.tpc.III.)

14. What information is contained in the Bank Return, and how is that information utilized by business men? (S.A.tpc.II.)

15. Explain exactly how Government borrowing induces an inflation of bank credits ?

16. How does war affect the Money Market ?

17. Explain fully the difference between Currency Notes and Bank of England Notes.

18. What is meant by the Mint Par of Exchange ?

19. Explain fully : (*a*) Gold Point ; (*b*) Long Rate.

20. How, and why, does war affect rates of exchange ? (S.A.tpc.III.)

21. What are "fluctuations in exchange," and what causes them ? (S.A.tpc.III.)

22. How do rates of exchange affect prices ? What is meant by "stabilisation of exchanges," and by what means, if any, may it be effected ?

23. How does a high bank rate affect exchange ? (S.A.tpc.III.)

24. What is Arbitrage ? (S.A tpc.III.)

25. What are the principal causes affecting the prices of (*a*) Commodities, (*b*) Securities ? (S.A.tpc.II.)

NOTE.—Reference should be made to (*a*) production, (*b*) competition, and (*c*) depreciation of the currency, in addition to other influences affecting the prices of commodities and securities.

CHAPTER VI.

CARRIAGE AND CARRIERS.

Transport and the Trader.—In these days of competition it has become more than ever necessary for the trader to be aware of every fact that may influence the price or delivery of the goods in which he deals.

In particular, the question of carriage demands the consideration and judgment of every business man. It is a question which naturally assumes greater importance as the weight or bulk and the distance to destination of the goods dealt in increase, but no trader can afford to neglect any means of accelerating transport or reducing its cost. For the wholesale warehouseman and his retail customers carriage may cost but a small percentage of the value of goods handled, but in a year the total cost of carriage is a heavy item. For coal factors, quarry owners, contractors and the like, the cost of carriage affects prices more directly, and such questions as heavy lifts and transhipment may demand as much forethought as the cost and speed of conveyance. For the importer, or the exporter who is enterprising enough to include the cost of delivery in his quotation, such matters as freight, packing, insurance, lighterage, port or town dues, import duty, and warehousing facilities are of such moment that neglect of any fact regarding them may occasion heavy loss.

Routes and Rates.—For one engaged in the work of the packing or forwarding department, a necessary step towards efficiency is the acquisition of a thorough knowledge of all possible routes by which parcels or goods may be dispatched to customers or received from suppliers. The Post Office Guide. Local Guides and Time Books, and shipping companies' Sailing Cards, naturally suggest themselves as documents of reference. Of not less importance are records of quotations for and cost of packing materials, and a **Rate Book** containing records of charges for goods sent to regular customers

The choice of most suitable Means of Transport must depend upon circumstances ; but the criteria are always (*a*) *cost*, (*b*) *speed*, and (*c*) *risk*

1. **Senders' own vehicles.**—In order to decide whether it would be profitable for the firm to instal its own stables or garages, information should be obtainable from the accounts as to present expenditure on carriage within the radius which the vans or lorries could serve An exact comparison could only be established from a monthly analysis of the cost of carriage under this heading for the last twelve months or so.

2. **Local Carrier.**—This is one of the cheapest methods of transport. There is no limit of size or weight other than the maximum which the carrier is able to handle, and local carriers offer the advantage of direct service.

Carriers are prohibited by law from carrying letters, such business being the monopoly of the Post Office.

In the meat, fish and other trades special carriers ply in certain districts for the trade at very cheap rates. Some are known as "bonded" carmen, their business being to handle dutiable goods on which duty has not yet been paid. They are said to be "bonded" because they enter into a bond with the Customs or Inland Revenue authorities under which they are liable to a penalty in respect of any goods which they allow to escape duty.

3. **Tramways.**—In some parts of the country parcels may be handed to the conductors of central-going cars or at the head office of the corporation for delivery in the neighbourhood of the tramway service. This arrangement is not common in this country, but where it exists the charge is less than 1*s*. per cwt., which does not, however, include collection or delivery. The system is much used in the United States.

4. **Parcel Post.**—No parcels are accepted which exceed 11 lbs in weight or 6 feet in length and girth combined; but distance is no object. The C O D. (Cash on Delivery) service, which exists in some British Possessions and on the Continent, offers advantages to firms doing a mail order business

5. **Road Traffic** compares unfavourably in *cost per ton-mile* with other means of transport, but for the removal of furniture, large machine tools, aeroplanes and other heavy or bulky material, it offers the advantage of direct conveyance from door to door with a minimum of handling.

For long distances conveyance is invariably more costly by road than by rail, canal or coasting vessel, because:

(*a*) more power is required per ton to move a road vehicle than a railway train or a floating vessel;
(*b*) at least two men are required to take charge of each set of lorries; and
(*c*) where the lorries do not return the same evening the men in charge have to be lodged and fed on the way.

Many firms employ lorries on what is known as the **Depôt System.** Customers in certain districts are supplied by road from local depôts or garages, the goods being transported to such centres in large quantities by rail or coasting steamer at much less cost than would be incurred if the whole distance were served by road direct. From the local

depôts the goods may be distributed in the firm's own vehicles or, where the traffic is not great, arrangements are made with the railway company or local carrier.

The growth of road traffic is no doubt partly due to its comparative freedom from risk and delay. There are at present some 150,000 miles of road in England maintained at public expense.

6. **Railway Transport.**—For parcels the railway is a better means of conveyance than the postal service as far as short distances are concerned, but packages under 11 lbs can be sent long distances cheaper by post (*cf.* railway handbills and P.O. Guide). Rapid delivery by rail is possible between two points on the same line, and claims are usually met more readily by the railway companies than by the Post Office.

7. **Canals and Waterways.**—The utility of the British canals is impaired by their lack of uniformity in depth and width. In France, Belgium, Holland and Germany, inland water transport is of greater commercial importance, and as the canals are all well navigable, barges are enabled to travel long distances and to serve many districts by direct communication with the ports.

In those countries one sees trains of ten to twenty barges carrying 300-500 tons each, drawn by small steam tugs, or self-propelled lighters of equal burthen worked by but a small paraffin motor, at remarkably low cost. The speed is necessarily low—three to five miles an hour—for two reasons :

(*a*) The power required increases approximately as the square of the speed ; and

(*b*) fast haulage on artificial waterways increases cost of maintenance owing to damage to the canal by scour.

For slow traffic with full cargoes barge transport is more efficient and consequently cheaper than any other, and it has the advantage of bringing goods alongside steamers in

the estuaries and fairways with a minimum of breakage and expense. For the conveyance of coal the barge also loses less on the way through vibration than the railway wagon.

A disadvantage attaching to canal haulage in modern times for any traffic but coal, cement, etc., is a tendency among users of material to order from hand to mouth, requiring small quantities speedily delivered This is just what the canals cannot do economically. It must not be imagined, however, that the canals of the United Kingdom are of no importance. Millions of tons are conveyed by them every year, and the traffic would be greater had not many important canals been purchased by railway companies in order to eliminate competition.

8. **Coasting Steamer.**—Theoretically, direct sea transport should be cheaper than rail transport. But costs may be considerably increased by conveyance to and from the ports, where "break of bulk" is necessary

It must be remembered, moreover, that whereas railway and canal rates are regulated by Act of Parliament the shipping companies are free to charge what they like. When the railways are congested, and traders compete for accommodation, rates of freight coastwise tend to exceed railway rates.

Freight is not the only charge in sending goods coastwise. The law regarding marine transport and the Contracts of Affreightment to which shippers have to agree relieve ship-owners of so much of their responsibility as carriers, that merchandise sent by sea has to be *insured.*

9. **Parcels Companies and Forwarding Agents.**—By combining small parcels and contracting with the railway companies, these people are enabled in most cases to charge lower rates than the sender would have to pay direct In addition to this their services include collection and delivery outside the railway cartage radii.

Wholesale warehouses in their turn contract with the parcels companies for the delivery of parcels to their retail customers, thus effecting a saving in carriage. Customers naturally share this benefit in keener prices.

More will be said in a later chapter regarding the valuable services rendered by forwarding and shipping agents in foreign trade

Common Carriers.—A common carrier is a carrier who publicly undertakes to transport from place to place, for hire (*i.e.* remuneration), the goods of any persons who choose to employ him.

Thus, parcels companies employing their own stage vehicles, barge owners, lightermen, and owners of "general ships" which ply from port to port to take in cargo for any shipper that likes to send goods for shipment by them, are common carriers. Railway companies are common carriers for the particular classes of goods which they profess to carry or are compelled by statute to carry.

A **private** or **casual carrier** is one who, although he carries for hire, does not profess to convey goods indiscriminately for any person who applies to him For example, a furniture dealer or a greengrocer who occasionally uses his vehicles "to oblige," but does not profess to transport goods for the public generally

If a common carrier without reasonable excuse refuses to carry the goods of any person he may be indicted for neglect of duty. But a carrier may profess to carry only certain classes of merchandise, in which case he is not a common carrier for other goods.

The legal position of a common carrier is that of *insurer* of the goods entrusted to him, and he is liable under the **Common Law** for any loss or injury to such goods from whatever cause, except—

(1) *Act of God*, *e.g.* flood, tornado, lightning, volcanic disturbances, etc.;

(2) *King's Enemies, i.e.* foreign enemies. The common carrier *is* answerable for loss or damage through robbery, civil commotions or revolution.

(3) *Inherent Vice* of the thing carried, *i.e.* natural deterioration as of perishable goods or animals who injure themselves or die from natural causes, and faulty packing.

The common carrier is liable so long as the goods are in his custody, *i.e.* from the time they are entrusted to him, during transit, and for a reasonable time afterwards. But if the consignee wrongfully delays to accept delivery, or fails to give instructions as to where the goods are to be delivered, the carrier's liability ceases as such, and he becomes liable only for negligence as **bailee**, unless otherwise expressly agreed.

A bailee—*e.g.* a wharfinger or warehouseman, dyer, bleacher, repairer, etc.—is bound to use ordinary diligence and a reasonable amount of skill, but is not responsible for accidents due to circumstances over which he has no control, such as fire, theft, etc. Reference to the documents on pp. 358-361 will illustrate this The importers, having entrusted goods to the wharf company, insure them against fire at their own expense, just as they would do if the goods were stored at their own premises. A gratuitous bailee can only be held liable for gross or wilful negligence.

It is precisely this question of liability—so important to senders and receivers of goods by carrier—that makes it necessary to distinguish between common carriers and casual carriers. A casual or private carrier is merely liable as bailee of the goods entrusted to him. The goods remain at the risk of the owner.

Common carriers are not responsible for loss or damage due to **Negligence of the Consignor** or other person employing him, where for instance he can show that loss was due to faulty packing, failure on the part of the consignor to draw attention to packages requiring specially careful handling, or improper addressing of labels, etc.

In all cases the carrier should be given full and unmistakable instructions. "Tie-on" labels are better than sticky ones, and should state full names and addresses of consignor and consignee, conveyance (*e.g.* "Passenger Train"), date, and whether sent carriage paid or carriage forward.

Moreover, a common carrier can refuse to accept dangerous or objectionable goods such as would expose him to extraordinary risks. And if **dangerous goods** are delivered to him without proper warning as to their contents the consignor will be liable for the consequences.

It is always open to the parties to agree to whatever terms they like; but any agreement exempting the carrier from liability for wilful misconduct or gross negligence is *absolutely void.*

The first **Act of Parliament** which limited the liability of common carriers was the

Land Carriers Act, 1830, which applies to carriage by land or over the land portion of a journey, and also[1] to carriage by water in the same way as it applies to carriage by land, as regards every common carrier by land who is also a carrier by water. (*E g* railway companies owning steamboats.) The Act was passed to prevent the hardship arising from the loss by carriers of valuable goods packed in small compass, and it enacted that where certain classes of **precious goods** of a value exceeding £10 are entrusted to a carrier (1) the nature and value of such goods must be declared on delivery to the carrier, and (2) the carrier is entitled to make such increased charge as he has given general notice of in his place of business or office.

A list of goods to which the Carriers' Act applies will be found on p. 191.

Special Contracts.—There is nothing to prevent a common carrier from protecting himself by special contract with any person who employs him.

[1] As amended by the Railways Act, 1921.

But by the **Railway and Canal Traffic Act, 1854**, every railway company is liable for loss or injury occasioned by the *neglect or default* of the company or its servants, notwithstanding any notice, conditions or declaration to the contrary. No agreement purporting to relieve a railway company of such liability is of any legal effect unless (1) it is in writing, (2) it is signed by the consignor, and (3) its conditions are just and reasonable. In practice the consignor signs what is called an **Owner's Risk Note** (see p. 180), exonerating the railway company from some of its liability as common carrier either (*a*) in consideration of a reduced rate of carriage, or (*b*) because his right to hold the company responsible is incomplete, as where for example goods are improperly packed

No carrier can avoid responsibility for wilful misconduct.

Liability of Shipowners.—At common law the shipowner's liability was the same as that of the land carrier, though it has been their custom from early times to limit their liability in the terms of their contracts with shippers, known as *Charter Parties* and *Bills of Lading*.

Now, by the **Merchant Shipping Act, 1894**, § 502, the owner of a British sea-going ship shall not be liable to make good to any extent whatever any loss or damage happening without his fault or privity

(i) where any goods, merchandise, or other things whatsoever taken in or put on board his ship are lost or damaged by reason of *fire* on board the ship ; or

(ii) where any gold, silver, diamonds, watches, jewels or precious stones taken in or put on board his ship, the true nature and value of which have not at the time of shipment been declared in writing, are lost or damaged by reason of any robbery, embezzlement, making away with, or secreting thereof.

By § 503 the extent of the shipowner's liability on each distinct occasion is limited

(i) to £15 per ton of his ship's tonnage in respect of loss of life or personal injury, and

(ii) to £8 per ton of his ship's tonnage in respect of loss of, or damage to, vessels, goods, merchandise or other things—

whether the death, injury, loss or damage is caused to any person or property on board the ship, or in any other vessel by reason of the faulty navigation of the ship, provided the occurrence took place without the owner's fault or privity. And where several claims are made or apprehended, the Court may determine the amount of the owner's liability, and distribute the amount *rateably* among the several claimants.

By § 633,

"An owner or master of a ship shall not be answerable to any person whatever for any loss or damage occasioned by the fault or incapacity of any qualified pilot acting in charge of that ship within any district where the employment of a qualified pilot is compulsory by law."

It is for the shipper (*i e* the sender) to *insure* his goods against all risks, including those for which the shipping company may be held liable, in case adequate compensation may not be recoverable from them.

Liability of Forwarding Agents.—A forwarding agent is responsible as *common carrier* for such part of the journey as may be served by vehicles which are his own, or in which he has an interest. But in so far as he has no interest in the freight, his position is that of *agent* and *warehouseman*, and as such he must act in good faith and use ordinary diligence.

The forwarding agent's first duty is to obey the instructions of the consignor, and as agent he usually asks the consignor what to do regarding insurance.

Claims.—All claims against carriers, whether for damage, short delivery or loss in transit, should be made *at the earliest possible moment* Unreasonable delay in presenting a claim may have the effect of relieving the carrier from liability, and in the case of the railways definite time limits have been fixed by certain rules, which have been adopted by all the leading companies, and which have been upheld by the

courts. These rules provide *inter alia*, that no claim in respect of goods for loss or damage during transit, for which the railway company may be liable, will be allowed unless the same be made in writing within three days after delivery of the goods in respect of which the claim is made, or for goods lost in transit unless the claim be made in writing within fourteen days after the date of dispatch.

If goods are fetched from the station or delivered by the railway company's carman in an incomplete or damaged condition, or the consignee is not able to verify them, a qualified signature should be given on the railway Delivery Sheet, stating that the goods are short-delivered or damaged, or "not examined," and reserving the right to claim after ascertaining the extent of the loss. The consignee should never refuse delivery of goods, because by so doing he would incur unnecessary risk and expense. After the termination of the transit the company's liability as common carrier ceases, and they hold the goods as warehousemen and subject to the usual charges.[1]

Claims are made in the form of a *Debit Note*, charging the carrier with the value or depreciation as shown in copies of invoices, credit note to customer, or other documents, which should be attached in support of the claim. If the claimant is unable, within the time limit, to state the exact extent of the loss, he should make a **provisional claim**, giving as full a description of the goods as possible. A mere letter of complaint, giving notice of an intention to claim, is not a claim at all

The **Measure of Damages** recoverable from a common carrier is the market value of the goods at the time and place at which the goods were, or ought to have been, delivered. In practice the railway companies, if they admit a claim, allow the *invoice price plus carriage*. That is to say, they allow the seller what he would have got for his goods if

[1] See Conditions 6 and 7 of Consignment Note on p. 182.

delivered, but admit no claim for loss of profit on resale after delivery at destination.

Who should sue the Carrier.—In principle the owner of the goods is the person entitled to receive from the carrier compensation for loss or damage, whether the cost of carriage is borne by the sender or by the consignor. Therefore the right to claim compensation in respect of goods sold belongs to the consignee, but the sender is entitled to claim in respect of his own goods sent on approval or on consignment. If, however, the sender has made a special contract with the carrier, the sender is the proper person to sue. Moreover, the consignee of goods sent by railway may find himself non-suited in an action concerning goods which have been in transit over the lines of more than one company, on the ground that no contract exists between him and the carrier. In such cases the sender should proceed *on behalf of* the owner of the goods

The contract of affreightment contained in a Bill of Lading differs from other carriage contracts in that it is binding upon and may be enforced by any person entitled to delivery of the goods

Carrier's Lien.—Carriers and Warehousemen have a lien on the goods entrusted to them, *i e.* they are entitled to retain the goods until the proper charges have been paid. The lien is a *particular*, not a *general* one, however, that is to say only the particular goods on which the charges are due may be withheld, not any other property belonging to the consignor or consignee.

EXERCISE 6.

1. Which is the best means of despatching goods from a wholesale warehouse to (*a*) its town customers, (*b*) its country customers ? Give reasons for your answer.

2. What considerations would decide you in considering whether to send goods (*a*) by road, (*b*) by rail, (*c*) by canal ? (S.A.tpc.II.)

3. What advantages may be derived by sending merchandise by (*a*) canal, and (*b*) coasting steamer ?

4. (*a*) When goods are sold the cost of carriage is sometimes borne by the seller and sometimes by the purchaser. Why is this ? Which arrangement do you think likely to prove the most economical ? Give reasons for your answer. (S.A.tpc.II.)

(*b*) What is a forwarding agent, and how does he justify his existence ?

5. How does a common carrier differ from a casual or "private" carrier ? Give examples of each.

6. What do you know of the duties and liabilities of a common carrier ? How can he avoid liability ? Can he avoid *all* liability ?

7. Explain the meaning of the following expressions : "Negligence of the Consignor," "Inherent Vice," "carr. fwd.," "Carriers' Act," "Particular Lien."

8. To what extent are (*a*) Shipowners and (*b*) Forwarding Agents responsible for the safe delivery of goods entrusted to them ?

9. In what manner should claims be made in respect of damage, short delivery or loss in transit, and to what extent may the owner of goods recover damages from the carrier ?

10. State carefully why in certain cases claims in respect of goods lost or damaged in transit are made by the sender, and in other cases the consignee is the proper person to sue the carrier.

CHAPTER VII.

RAILWAY AND CANAL TRAFFIC.

Origin and Development.—From early times the rivers of the United Kingdom have been improved for purposes of navigation by dredging, and by erecting locks and weirs, but it was not until 1759 that *artificial* water channels or **Canals** were introduced as a regular means of transport In that year the Duke of Bridgewater obtained powers to construct a canal from Manchester to his collieries at Worsley. The work was undertaken by an engineer named James Brindley, and the canal, known to this day as the Bridgewater Canal, was opened in 1761 Then followed a period of great activity in canal construction, practically all the **barge canals** being completed by 1830 Before the advent of mechanical traction, barge goods traffic was found to be not only more economical but also more speedy than conveyance by the bad roads then in existence or by coasting vessel, and some of the canals ran regular passenger services As a result of the *Industrial Revolution* industry became more centralized, and its progress depended very largely upon efficient means of communication between the ports and manufacturing centres So the canals played an important part in the development of the commerce of the United Kingdom.

An event which started a new epoch in transport, and indeed in the world's history, occurred in the opening

of the Liverpool and Manchester Railway in 1830. This was due to the ingenuity of George Stephenson, a working pitman in the Durham coalfields, who saw that by using a locomotive engine, driven by steam, to draw waggons along the old wooden tram lines, much greater speed could be obtained. The idea was first put into execution near Stockton, and was so successful that a company was formed for making the line from Manchester to Liverpool, which had long felt road and water carriage to be inadequate to the trade done between them. Whether we regard the event commercially, as saving the time of the world, and enabling the transport of goods to be carried on a scale never dreamt of before, or politically, as knitting together widely scattered nationalities, its influence has been enormous.[1]

During the period of railway construction the prosperity of the canals gradually declined, and some of the canal companies became so alarmed for their future that they sold their canals to the railway companies. The object of the railway companies in acquiring the canals was rather to eliminate their competition than to work them for profit. Owners of canals, whoever they may be, are legally compelled to maintain them in working condition and to provide traffic facilities; but it has not been in the railway companies' interests, generally, to do more than they were compelled to do According to evidence submitted to the Royal Commission on Canals, appointed in 1906 to report on the canals and waterways of the kingdom, of the then existing 3901 miles of canals no less than 1138 miles were owned or controlled by railway companies.

The **Ship Canals** are not victimized, like the small barge canals, by railway competition. They provide facilities which the railways cannot give. The Manchester Ship Canal, which has a depth of 28 feet throughout, enables

[1] *An Advanced History of England*, by Cyril Ransome.

sea-going vessels to proceed inland from Liverpool to Manchester, converting that city into a port. The Caledonian Canal, from Inverness to Fort William, enables steamers to cut through from the Atlantic Ocean to the North Sea without rounding the North of Scotland. Abroad, the Kiel Canal, the Suez Canal and the Panama Canal have a commercial and political significance which need not be emphasized.

Statutory Powers.—Railway and Canal companies, like dock, water, gas, electric light and tramway companies, are incorporated by Act of Parliament; hence they are known **as statutory companies,** or **public utility companies.**

Whereas on the one hand the objects of such a company cannot be obtained without authority to interfere with the existing rights of landlords by taking land, and to encroach upon public thoroughfares, in order to lay lines, pipes or cables as the case may be, on the other hand the company offers to render a useful *public service* in return for its privileges.

THE RAILWAYS.

In order to obtain sanction for the construction of the railways the promoters have had to comply with the rules or "standing orders" of both Houses of Parliament, one of which requires that notice shall be served on the landlords concerned. Before the bill relating to any railway is passed into law, opportunity is given to any landlord, or other person whose interests might be adversely affected, to enter an appearance against the scheme.

The special Acts of Parliament relating to each railway company may be divided into three parts, establishing the legal position of the company towards

(*a*) its members;
(*b*) the landlords; and
(*c*) the public.

By the passing of the first Act the company is brought into existence, given the privileges of a body corporate, and authorized to raise capital. It is also empowered to acquire, by agreement or compulsorily, such lands or easements as may be necessary to enable it to carry out its undertaking. The rights of the public to use the railway, and of the company to levy tolls, are regulated in the special Acts relating to each company in particular, and in certain other Acts relating to railways in general.

Obligation to accept traffic.—Though the railway companies are not liable as common carriers in respect of goods which they do not profess to carry, they cannot refuse to take any traffic at all which they have facilities for carrying. But a railway company can be held liable only as bailee (see p. 163), in respect of goods of which it is not a common carrier.

Obligation to provide facilities.—Moreover, by the **Railway and Canal Traffic Act, 1854**, a railway company may be compelled to afford reasonable facilities for receiving, forwarding and delivering all merchandise (other than exceptionally dangerous goods), and for the accommodation of passengers.

The *Railway Commissioners* (p. 174) alone have power, with the view of securing and promoting the public safety, or the interests of the public, or of trade, or of any particular locality, on the application of any body of persons representing any such interests, by order to require any railway company or companies to afford reasonable railway services, facilities and conveniences.

Right to levy Tolls.—Originally, each railway company was authorized to demand certain maximum rates and charges for different classes of traffic. A railway company might vary its rates and charges provided it did not exceed the permitted maxima or give undue preference.

The principle of fixing maximum scales and allowing the railway companies to fix actual rates within these has

since been abandoned. The actual Standard Rates are now fixed by an independent tribunal.

Railway and Canal Commission.—Prior to the creation of the Ministry of Transport (p. 195) the interests of the public in connection with the railways and canals were entrusted to a Railway and Canal Commission. It is still in existence, and has jurisdiction to deal with such matters as traffic facilities and obligations arising under special statutes, conveyance of mails, and public safety. Other powers formerly exercisable by the Railway and Canal Commission, and in particular its power to determine questions in regard to rates and charges, have ceased, and are now exercisable either by the Minister of Transport or by the Railway Rates Tribunal (p 196), according to circumstances.

The Railway Clearing House was instituted in 1842, and obtained parliamentary recognition by the **Railway Clearing Act, 1850.** By its means the interworking of the railways has been greatly facilitated, and it fulfils the useful function of a central organ, to which the interests, mutual as well as antagonistic, of the various railway companies are made to converge.

The clearing house is situate in Seymour Street, N.W. 1, and its principal routine consists of apportioning the proceeds from **through bookings** of passenger and goods traffic among the various railway companies. All stations submit through their respective companies to the clearing house **Monthly Returns** of traffic booked through from their own to other companies' lines, and the C.H. credits each company with its fair share, on a principle similar to that of the Bankers' Clearing House.

The clearing house also attends to the return of waggons, tarpaulins, etc., and deals with lost luggage. Moreover, Claims, which are not so unreasonable that they may be dismissed at once by the company concerned, are referred to a **Joint Claims Committee** of the C.H., whose expert advice is acted upon by the company.

In the early days the railway clearing house rendered important service in establishing a uniform classification of goods as a basis for the calculation of rates and charges.

Classification and Maximum Rates.—By the **Railway and Canal Traffic Act, 1888**, the railway companies were called upon to submit to the Board of Trade a revised classification of Merchandise Traffic and schedules of maximum rates applicable thereto. These were considered and amended by the Board of Trade, whose recommendations were embodied in thirty-five separate statutes, called the **Railway Rates and Charges Order Confirmation Acts, 1891 and 1892**, applicable to thirty-five different railways or groups of railways jointly owned, leased or worked with them. Each Act contains a schedule, divided into six parts, showing the maximum rates and charges authorized in respect of

I. Goods and Minerals ;
II. Animals ;
III. Carriages ;
IV. Exceptional Class ;
V. Perishable Merchandise by Passenger Train ;
VI. Small Parcels by Merchandise Train.

GOODS AND MINERALS are graded into eight classes, the rates applying to class A being the lowest, and class 5 rates the highest. For example :

Class	A	includes	Coal ; Coke ; Gannister ; Gravel ; Ironstone ; Sand ; Rough Stone ; etc.
,,	B	,,	Bricks, *crushed* ; China Clay ; Anvils ; Slates, *common* ; Turf ; etc.
,,	C	,,	Copper Ore ; Flour ; Grain ; Hoop Iron ; Rails ; Wood Pulp ; etc.
,,	1	,,	Ales and Porter, *in casks* ; Cotton, *raw, in press-packed bales* ; Jute ; Sheet lead ; etc.
,,	2	,,	Ale and Porter, *bottled, in hampers* ; Bread ; Cocoa ; Coffee ; Ropes ; Scrap Zinc ; etc.

Class 3 includes Blankets; China, *in hampers*; Cutlery; Hardware; Taps, *brass*; Tea; Wheelbarrows; etc.

,, 4 ,, China, *in boxes and cases*; Footballs; Rifles; Tanks; Wire, *insulated*; etc.

,, 5 ,, Amber; Bicycles; Furs; Game; Lace; Musical Instruments; Perfumery; etc.

The following maximum rates for Goods and Minerals are taken from the schedule in the Midland Railway Company (Rates and Charges) Order Confirmation Act, 1891.

MAXIMUM RATES FOR CONVEYANCE.

In respect of Merchandise comprised in the under-mentioned classes	For Consignments except as otherwise provided in the Schedule			
	For the first 20 miles, or any part of such distance	For the first 30 miles, or any part of such distance	For the first 50 miles, or any part of such distance	For the remainder of the distance
	Per Ton per Mile *d*	Per Ton per Mile *d*	Per Ton per Mile *d*	Per Ton per Mile *d*
A	1 15	0 90	0 45	0 40
B	1 25	1 00	0 80	0 50
C	1 80	1 50	1 20	0 70
1	2 20	1 85	1 40	1 00
2	2 65	2 30	1 80	1 50
3	3 10	2 65	2 00	1 80
4	3 60	3 15	2 50	2 20
5	4 30	3 70	3 25	2 50

MAXIMUM TERMINALS.

In respect of Merchandise comprised in the under-mentioned classes	Station Terminal at each end	Service Terminals			
		Loading	Unloading	Covering	Uncovering
	Per Ton *s d*	Per Ton *s. d*	Per Ton *s d*	Per Ton *d*	Per Ton *d*
A - - - -	0 3	—	—	—	—
B - - - -	0 6	—	—	—	—
C - - - -	1 0	0 3	0 3	1	1
1 - - - -	1 6	0 5	0 5	1 50	1 50
2 - - - -	1 6	0 8	0 8	2	2
3 - - - -	1 6	1 0	1 0	2	2
4 - - - -	1 6	1 4	1 4	3	3
5 - - - -	1 6	1 8	1 8	4	4

The original classification, with the schedules of maximum rates and charges applicable to each railway, is published

by H.M. Stationery Office in a blue book entitled "**An Analysis of the Railway Rates and Charges Order Confirmation Acts, 1891 and 1892,**" price 10*s*. net.

Revision of Rates, 1920.—The maxima referred to above remained in force until the 14th January, 1920, after which date the Ministry of Transport Act of 1919 came into force, and the railways were directed by the Minister of Transport to increase their charges The Railway Clearing House accordingly issued, on behalf of the "controlled" railways of Great Britain, common notices of increase, the latest of which may be obtained from the C.H. or seen at the companies' goods offices The prescribed increases were not based upon the companies' statutory charges, but upon the *actual rates in operation on the* 14*th January*, 1920.

The Minister of Transport had power to direct the revision of rates, fares, tolls, dues and other charges, after reference to a **Rates Advisory Committee** Before the Committee advised on matters referred to them, public notice was given to enable any persons affected by any revision to make representations to the Committee in defence of their interests.

Revised Classification.—The Railways Act of 1921, which set up a Railway Rates Tribunal to supersede the Rates Advisory Committee of the Ministry of Transport, provided for a total revision of railway rates The rates to be fixed by the rates tribunal, and called "Standard Charges," were to be based on a revised classification.

The new classification will probably be divided into a greater number of classes, and account will be taken of the quantity of goods constituting a consignment, a lower rate being accorded to goods forwarded in large quantities. It has been recommended also that when the transit is over the lines of more than one company, the rate should be computed on the basis of continuous mileage.

To-day, if the traffic passes over the lines of (say) three companies, each is entitled to charge for the first 20 miles, the

next 30, and the next 50 miles, a higher rate than for the rest of the journey.

The new classification was to be determined in the first instance by the Rates Advisory Committee, which made recommendations in the matter before the passing of the Railways Act, and was permitted to continue in existence until it had settled the classification Any subsequent alterations will be made by the rates tribunal.

Standard Charges.—By the Railways Act, 1921, the constituent companies in each group of railways formed under that Act, must submit to the rates tribunal not later than the 31st December, 1922, or such later date as the Minister of Transport may allow, a schedule of the standard charges proposed to be made by the amalgamated company (*q.v.*) into which they are to be formed, according to the revised classification. The schedules are to be divided into eight parts, as follows:

Part I. Goods and Minerals;
Part II. Animals,
Part III Carriages;
Part IV. Perishable merchandise by passenger train;
Part V. Small Parcels;
Part VI. Merchandise of an exceptional character;
Part VII. Passengers and luggage; and Articles other than perishables by passenger train;
Part VIII. Any toll payable by a trader.

The rates tribunal will consider the schedules of charges and any objections thereto, and, after hearing all parties interested and who are desirous of being heard, will settle the schedules of charges and appoint a day when the same shall come into operation.

On and from the appointed day the charges appearing in the schedule for each amalgamated company will be the charges which that company will be entitled to charge,

and no variation either upwards or downwards may be made except as authorized under the provisions of the Act.

Fixation of Rates.—The principles underlying the fixation of traffic rates are similar to those followed by the trader in pricing his goods. For the carrier the main consideration is naturally to *charge what the traffic will bear*, and he must have regard to all relevant cricumstances, and in particular to (*a*) value, (*b*) the bulk in comparison to weight, (*c*) the risk of damage, (*d*) the cost of handling, and (*e*) the saving of cost which may result when merchandise is forwarded in large quantities. Finally, (*f*) the carrier is concerned more with his total *net receipts*, *i e* takings less working expenses, than with the amount of profit accruing from each transaction. He therefore studies the needs of the community, encourages trade which may prove profitable to himself, and shapes his charges to compete with other means of transport

The standard classification has evolved in conformity with the above principles. Thus Barometers, Organs, and Silk (class 5) are of such value that they will bear a higher rate, and Straw Hats (also class 5) are so bulky as to demand a higher rate *per ton* than say Oranges (class 2), corrugated Iron (class C) or Limestone in bulk (class A). The cost of transporting say class A traffic is also less than that of the higher classes, for the loads are larger and more regular, traders provide their own trucks or are charged for the use of them, and the risk of loss or damage is less.

In some cases (in the Great Eastern, Midland and Furness statutes for instance) the schedules applied uniformly to all parts of the respective companies' lines, whereas in others the maxima varied according to the hilly or populous character of the region concerned. Thus the L.N.W.R. was authorized to charge for class A traffic 2*d.* per ton-mile over one area, including the Buxton and High Peak Junction, etc , and 1·25*d.* in another region, including the line between Cockermouth and Workington, as against 0·95*d.* on other parts of the system.

Consignment Note.—The Contract between the Railway Company and the Consignor for the transport of goods by Merchandise Train is contained in a Consignment Note (C/N). These documents may be obtained at the railway companies' offices, either separately or bound up in a book with counterfoils. The consignor fills up the note and delivers it to the railway with the goods, in exchange for the signature of the railway company's representative or carman, on the counterfoil or in a delivery book. The description of the goods should be given in strict conformity with the official classification, and in the last column should be stated clearly whether the carriage is to be paid by the Consignor or the Consignee.

The form of consignment note here reproduced (Figs. 2 and 2A) is that used for goods consigned at **Carrier's Risk** (**C/R**). Special forms are in use for Dangerous Goods and for Specie and Bullion, and **Owner's Risk** (**O/R**) notes are employed in respect of goods sent at owner's risk. The headings of two O/R consignment notes shown on pages 184 and 185 (Figs 3 and 4) should be carefully studied in conjunction with the remarks on p. 165 regarding "special contracts."

How to check a Railway Rate.—It is not a difficult matter to check a railway company's invoice or **Carriage Account.**

The first step is to verify the weights and calculations shown in the account. Usually office records of consignments sent and received by rail are kept in an *Outward Goods Journal* and an *Inward Goods Journal*

The PAID-ON Column of the consignment notes and carriage account is reserved for any charge paid by the railway company for services not included in the rate. Thus, where goods are sent carriage forward over two railways' lines not connected by through rates, the carriage due to the first company may

(This space is not to be written on) 3611/5/19

THE GREAT NORTHERN RAILWAY COMPANY

Spl. 250,000—9/19. 156

CONSIGNMENT NOTE FOR GOODS TO BE CARRIED AT CARRIER'S RISK.

Pro. No ....
or
NUMBER OF THIS NOTE

To the GREAT NORTHERN RAILWAY COMPANY .... *Station* .... 19...

Receive and forward as per address and particulars on this Note the undermentioned Goods on the conditions stated on the other side.

This Agreement shall be deemed to be separately made with all Companies or persons who shall be Carriers for any portion of the transit (herein respectively referred to as the Company) and to include the conditions endorsed hereon.

Signature of Sender or his Representative .... *Address*........

Senders must fully and accurately describe the contents of packages and must also clearly state whether carriage is payable by Sender or Consignee

Owner and Wagon No	To which Station and Railway to be sent.	Consignee		No of Articles.	Description of Goods and Marks.	Weight				Charges paid on			Who pays the Carriage.
		Name	Full Address			T	C.	Q	Lbs.	£	s.	d.	

Goods which may be required "To wait order" at any particular Station must be so consigned on this Note.

Name of Company's Drayman bringing traffic in................ 1071

FIG. 2.—RAILWAY CONSIGNMENT NOTE (FRONT)

GENERAL CONDITIONS. G.N.

1.—The Company shall not whether the carriage be by land or sea be liable for loss or injury (from whatever cause arising) of or to any articles or property described in the Carriers' Act, 1830, contained in any parcel or package when the value of such articles or property exceeds £10, unless the nature and value thereof be declared and an increased charge over and above the charge for carriage be paid as compensation for the risk incurred

2.—The Company shall not be liable for loss, damage or delay of or to animals or goods booked through for carriage partly by railway or canal and partly by sea from the act of God the King's enemies, fire, accidents from machinery boilers and steam and all and every other dangers and accidents of the seas rivers and navigation of whatever nature or kind In respect of animals or goods intended to be carried by Shipping Companies or other Carriers by Sea the Company are authorised, as agents for the sender to contract for such carriage upon the terms of any Bill of Lading or other conditions required by the Carriers by Sea

3.—The Company shall not be liable for loss from or for damage or delay to a consignment or any part thereof, unless a claim be made in writing within three days after the termination of the carriage of the consignment or any part thereof or in the case of traffic to places outside the United Kingdom the termination of the carriage by a Railway Company of the United Kingdom, nor for non-delivery of a consignment unless a claim be made in writing within fourteen days after its receipt by the first contracting Company

4.—When the Company perform the cartage the place of collection or delivery shall be the usual place of loading or unloading the goods into or from the road vehicles

5.—The Consignor or Consignee shall provide at his own risk and expense any power plant and labour (in addition to the Company's carman) required for loading or unloading road vehicles

6.—The transit shall (unless otherwise determined) be deemed to be at an end (a) in the case of goods to be carted by the Company when they are tendered at the place of delivery as defined in Condition 4, or (b) in the case of goods not to be carted by the Company or to be retained by the Company awaiting order at the expiration of 24 hours after notice of arrival is delivered to the Consignee or at his address or should be so delivered in due course of post or where the address of the Consignee is not known at the expiration of 24 hours after the arrival of the goods at the place to which they are consigned or (c) in the case of goods consigned to a destination beyond the limits of the Company's delivery when they have been transferred to another carrier in the usual course for conveyance or delivery in which last mentioned case the Company shall cease to be liable for any subsequent loss damage, misconveyance, misdelivery delay or detention arising from any cause whatsoever

7.—After the termination of the transit (as defined in Condition 6 (a) and (b) the Company will hold the goods as warehousemen subject to the usual charges

8.—The Company will charge in accordance with their scale for the time being, for the detention of their trucks road vehicles, or sheets, or for the occupation of their Sidings by the truck of private owners (a) before or after transit, and (b) during transit in consequence of the Consignee not being ready to accept delivery

9.—All goods delivered to the Company will be received and held by them subject to a lien for money due to them for the carriage of and other charges upon or expenses in connection with such goods (including charges for warehousing or keeping such goods for detention of trucks, road vehicles, or sheets or for siding rent during the exercise of such lien) and all goods delivered to the Company under this consignment note or otherwise will be received and held by them subject to a general lien for any moneys due to them from the owners of such goods upon any account and in case any such lien is not satisfied within a reasonable time from the date upon which the Company first gave notice to the owners of the goods of the exercise of the same the goods may be sold by the Company by auction or otherwise and the proceeds of sale applied to the satisfaction of every such lien and expenses and charges

10.—Perishable articles (a) refused by the Consignee or (b) not taken away from the place to which they are consigned within a reasonable time after arrival or (c) insufficiently addressed or (d) not delivered in consequence of strike or riot may be sold without any notice to Sender or Consignee, and payment or tender of the net proceeds of any such sale after deduction of freight charges and expenses shall be equivalent to delivery

11.—The Company shall not be liable for (a) loss of market (b) indirect or consequential damages (c) loss or delay due to inadequate or incorrect address or imperfect labelling (d) loss or damage caused by insufficient or improper packing (e) loss damage or delay caused by or arising out of any strike or riot (f) loss damage or delay caused by Consignee not accepting delivery

12.—The Company shall not be liable for loss damage or delay of or to goods or a trader's truck or sheet caused by a defect in a truck not belonging to the Company unless proved to be due to the negligence of the Company's servants

13.—The Sender will be liable for all charges for carriage or otherwise including the detention of trucks, road vehicles or sheets before during or after transit without prejudice to the Company's rights against the Consignee or other person.

14.—The Charges for traffic that loses weight through drainage evaporation or any cause beyond the Company's control shall be calculated upon the weight of the Goods when received by the Company

15.—The Conditions and Regulations set out in the Company's Rate Books applicable to the goods carried shall be deemed to be incorporated herein

16.—The Company's servants have no authority to vary this contract

THE COMPANY GIVE NOTICE:—

That it is only for the convenience of the public that they accept goods consigned direct to or from foreign countries and that in accepting goods so consigned and handing them to or in receiving them from other Companies or Carriers they do so only as agents for the owner of the goods and do not incur any risk or responsibility of any kind beyond their own system Traffic consigned to foreign countries must be accompanied with a declaration form to be obtained at the stations, and unless such form filled up and signed by the sender is handed to the Company with the goods, the Company decline all responsibility for the delay and other consequences that may arise therefrom

That they do not, except on special conditions undertake the carriage of gunpowder, matches, aquafortis, oil of vitriol or other dangerous articles, neither will they under any circumstances be liable for the loss of any such article but all senders thereof will be held accountable for any damage arising thereto or therefrom and whether to other goods or property of the Company or of any other person Senders are subject to a penalty unless the nature of the contents be declared and distinctly marked on the outside of the package containing the same

FIG. 2A.—RAILWAY CONSIGNMENT NOTE (BACK)

be paid in cash by the second company and charged to the consignee in the "paid-on" column. The method is employed for services rendered by carters to receiving station where the goods are charged at an "S. to S." (Station to Station) rate. The consignee may ask the railway company for a voucher to check the amount of such charges.

"C. & D." (Collected and Delivered) rates are not quoted for all stations; but where the rate only includes conveyance from station to station the railway company may be willing to collect or deliver for an extra charge. On the other hand, where the only rate includes collection and delivery, and the sender or receiver elects to do his own cartage, he is entitled to a REBATE varying in amount according to the class of goods. Cartage charges and rebates between any points may be ascertained on application to the railway companies.

CARRIAGE ACCOUNT.

Derby,. . . ..192....

M..

....

To THE MIDLAND RAILWAY COMPANY, LTD.

Accounts rendered to the end of One Month are due in Cash on the Twentieth of the next.

Date.	From	To	Co.	Owner of Waggons.	Charged Weight				Tolls.				Waggon Hire			
					Coal.		Coke		Rate per ton.	Amount			Rate per ton.	Amount.		
					Tns	Cwt	Tns	Cwt		£	s	d		£	s.	d.
an. 3	Bagworth	Highgate R			18	7										
					18	12										
					9	5										
					9	10										
					9	6										
					65	–			9/9	31	13	9				

THE GREAT NORTHERN RAILW

CONSIGNMENT NOTE FOR GOODS TO BE C

THE GREAT NORTHERN RAILWAY COMPANY hereby give notice that they have alternative rates for the carriage of the undermen ordinary rate and (2) a lower rate charged upon the terms of the following Special Contract.

To the GREAT NORTHERN RAILWAY COMPANY,________________________________St

Receive the undermentioned goods for carriage at the lower rate subject to the condition that the Company shall not be liable for lo r sheet (if any) containing or covering them except upon proof that such loss, damage, misconveyance, misdelivery, delay or detention d ion shall exempt the Company from any liability they might otherwise incur in the following cases of non delivery pilferage or misdeliver

(1) Non-delivery of any packages or consignment fully and properly addressed, unless such non-delivery is due to accident

(2) Pilferage from package of goods protected otherwise than by paper or other packing readily removable by hand provided

(3) Misdelivery where goods fully and properly addressed are not tendered to the Consignee within twenty-eight days after d

Provided that the Company shall not be liable in the said cases of non-delivery, pilferage, or misdelivery, on proof that the same has This Agreement shall be deemed to be separately made with all Companies or persons who shall be Carriers for any portion of the tra

*Signature of Sender or his Representative*______________________________

Senders must fully and accurately describe the contents of packages and m

wner and Wagon No	To what Station and Railway to be sent.	CONSIGNEE.	
		NAME	FULL ADDRESS

FIG 3 —HEADING OF OWNE

[W. & S. Ltd.]

THE GREAT NORTHER

CONSIGNMENT NOTE FOR DAMAGEABLE GOODS WHEN NOT PROPER

The GREAT NORTHERN RAILWAY COMPANY hereby give notice that they are not and will not be carriers of that the rates quoted by the Company for the carriage of such goods when the Company undertake the ordinary liability the sender may at his option consign the said goods, not so protected, if he agrees to relieve the Company and all other Com may be during any portion of the transit, from all liability for loss or injury to the same, except upon proof that such l

The following is a list of damageable goods, but it is not exhaustive, and the Company reserve to themselves the ri

Aerated and Mineral Waters, in cases Ale and Porter, bottled, in cases Ammeters, non-recording for	Blocks, plaster - composition, beaded, moulded, and ornamental Boats and Canoes Boilers Copper	Cornice Poles Crucibles, Plumbago or Clay Crucibles e o h p Cycle Trailers	Fireclay Ware Fire Guards, metal. Fire Irons Fireplace Stands, kitchen
etc	etc	etc	etc

NOTE —As to Explosives, Inflammable Liquids, Dangerous or Corrosiv

To the Great Northern Railway Company __________________

In consideration of your receiving and forwarding the undermentioned goods, not properly protected by packing, anc I derive therefrom, I agree to relieve the GREAT NORTHERN RAILWAY COMPANY from all liability for loss or injury to the sam This Agreement shall be deemed to be separately made with all Companies or persons who shall be Carriers for any

Signature of Sender or his Representative ______________________________

Senders must fully and accurately describe the contents of packag

Owner and Wagon No	To what Station and Railway to be sent.	CONSIGNEE.	
		NAME	FULL ADDRESS

FIG 4 —HEADING OF OWN

(Damaged Goods n

OMPANY.

B & Spl —50,000 8-17. 154

AT OWNER'S RISK.

either of which rates the goods may be consigned at the Sender's option

Pro No. ——

—————————— 191——

NUMBER OF THIS NOTE.

conveyance, misdelivery, delay or detention of or to such goods or a trader's
ilful misconduct of the Company's servants. But nothing in the aforesaid

sels, or to the
e is pointed out to a servant of the Company on or before delivery.

by negligence or misconduct on the part of the Company or their servants.
pectively referred to as the Company and to include the Conditions endorsed hereon.

——*Address* ——————

arly state whether carriage is payable by Sender or Consignee.

No. of Articles.	Description of Goods and Marks	WEIGHT T	C	Q	Lbs	Charges paid on £	s.	d	Who pays the carriage.

CONSIGNMENT NOTE

L 33—25,000—9-18

AILWAY COMPANY. 154 A

Pro. No.——————
or
NUMBER OF THIS NOTE.

TECTED BY PACKING, AT OWNER'S RISK.

ng damageable goods, except when properly protected by packing and
y Company do not apply to the said goods, except when so protected, but
ns over whose lines the same may pass, or in whose possession the same
arose from wilful misconduct on the part of the Company's servants

to be carriers of other descriptions of goods not properly protected, except upon the before-mentioned terms —

, for Electric Tram Slabs [Cars. ic Stones. [glass. Glasses and Mirrors, —— Work Ornaments (*see* Figures). Sanitary Castings, iron or steel, for Urinals and Water Closets Sanitary Tubes, with patent composition collars. [ma Tanks, wrought iron, enam- Tiles, Art [elled. Tiles, glazed or enamelled Tramway Point Boxes, e o h p.

d other Dangerous Goods, see Special Classification of such Articles.

———— Station,—————————— 191

uent saving to me of the cost of packing and of the reduced weight of the consignment, and of any other advantage which
n proof that such loss or injury arose from wilful misconduct on the part of the Company's servants
transit (herein respectively referred to as the Company) and to include the conditions endorsed hereon.

—— Address——————

lso clearly state whether carriage is payable by Sender or Consignee.

No of Articles.	Description of Goods and Marks.	WEIGHT T.	C.	Q.	Lbs.	Charges paid on. £	s.	d.	WHO PAYS THE CARRIAGE.

CONSIGNMENT NOTE
y protected)

CARRIAGE ACCOUNT.

ALL RATES AND CHARGES are to be paid on delivery of the Goods unless the Consignee has a Ledger Account with the Company, which is granted upon the following, amongst other conditions: that the amount of the Account as rendered is remitted within Eight Days thereafter to the Station from which it is received. Errors or overcharges, when found to exist, will be at once rectified and allowed in next settlement, but shall form no ground for delay or deduction in payment of Accounts.

The Company cannot accept reference to Senders or a third party for carriage. Cheques to be drawn to the Order of the London & North Western Railway Company and crossed

Please to require a Printed Stamped Receipt for Amounts of £2, and upwards.

M. . . . .Station........................ 19.

To THE LONDON AND NORTH WESTERN RAILWAY COMPANY.

Date.	Invoice No.	From or To	Station	Sender or Consignee	Species and Marks	Weight T. C Q. Lbs	Rate.	Paid on.		Tota £ s

The next step is to consult the Classification. A **General Railway Classification of Goods by Merchandise Trains** is published officially every year, and may be obtained at the Secretary's Office of any of the railway companies, price 1*s*. The following is taken from the alphabetical list of articles contained in the classification :—

ALPHABETICAL LIST OF ARTICLES.

Tanks, *Oil Storage —Toolst and other Appliances (excep Scaffold Poles and Boards, Cranes, and Portable or Stationary Engines) for the erection of Oil Storage Tanks must be charged the same as Iron or Steel for Oil Storage Tanks on the outward journey, and also when conveyed back to the original sending station by the same route*	
Tanks, *Water Tempering and Measuring, for Bakeries, packed in cases or crates* . .	4*y*
Tanks and Cisterns—	
†*Cast iron* . . .	*2*y*
†*Iron or steel, glass-lined*	4*y*
†*Iron or steel, lead-coated*	2
†*Iron or steel (not wrought or enamelled), such as can be carried in an ordinary truck*	2
Tapers and Candles, *Paraffin, Tallow, and Stearine* .	1‡
Tapes . .	3*hd*
Tapioca . .	2‡‡
Tapioca Flour	C*g*‡
Tapioca Root .	C
Taps, *brass*	3¶
Taps, *wood* . ..	3
Tar, *Coal or Gas*—	
In Owner's tank waggons φ	A
E o h p.	B
NOTE — *Tank Waggons, both full and empty, will not be accepted for conveyance unless all inlets and outlets are securely closed watertight* . .	
Tar, *Extract of, from Gas Works, in casks*—(as Paints and Colours [Pigments])	
Tar, *prepared for road dressing, in barrels* . .	B

* Subject to special arrangement when of unusual length, bulk, or weight, or of exceptional bulk in proportion to weight. ¶ Hardware List.

g. Grain List. *hd* Heavy Drapery List.

† If not properly protected by packing to be only accepted at Owner's risk.

‡ Grocery List No. 1 ‡‡ Grocery List No. 2 ι Iron and Steel List

φ See Regulation 14, p. 4. *y* Reduced rate at Owner's risk.

Having ascertained the Class to which our consignment belongs, we proceed to consult the railway company's **Rate Book**. Every railway and canal company must keep at each of its stations and wharves a book showing every route from that station or wharf to every other place to

which the company books passenger or other traffic, and showing the distance and special rates in operation.

EXTRACT FROM GREAT EASTERN RAILWAY RATE BOOK.

Between LONDON and	Distance in Miles from Bishopsgate	CLASS RATES PER TON (subject to conditions on pages 4 and 5)								
		CLASSES								
		A and B		C		1	2	3	4	5
		4 Tons	6 Ton loads	2 Tons	4 Ton loads					
		s d	s d	s d	s d	s d	s d	d s	s d	s d
Linton - -	53	5 2	3 9	8 9	7 11	17 1	20 5	23 9	28 0	33 4
Pampisford -	55¾	5 5	3 10	9 2	7 11	17 6	20 10	24 7	28 9	24 2
Colchester (North) -	51½									
Hythe - -	53½	5 2	3 9	8 9	7 11	17 1	20 5	23 9	28 0	33 4
St Botolph's - (For Station to Station traffic only)	53¾									

Until the Standard Charges to be fixed by the Railway Rates Tribunal come into force the rates shown in the rate books will remain those which were in force on the 14th January, 1920. To them must be added the *Increases* shown on various Notices issued by the Railway Clearing House. An example of these Notices is not given in this book, as they will become obsolete when the Standard Charges come into force.

The Rate Book or tables and a General Classification must be open to inspection by any person without fee, and any person may apply to the secretary of the company for particulars as to how a rate is made up (charges for conveyance and terminals being shown separately and in detail). Where consignments by goods train are frequent it is a simple matter to keep a "rates book" showing a record of charges for routes often used, or reference may be made to Gray's Tables, which include the rates in operation between a large number of stations.

Special Rates and Rules.—The letters and signs attached to the classes A, B, C, 1, 2, etc., in the General Classification refer to other parts of the book. Thus, the companies are allowed under the Acts of 1891 and 1892 (Part IV.) to charge special rates for articles of exceptional bulk, etc.

The letters **x**, **y** and **z** apply to a table of reduced rates for goods consigned at owner's risk, of which the following is a short extract.

REDUCED CLASS RATES AT OWNER'S RISK.

TABLE OF REDUCED CLASS RATES for Articles marked with the letters "x," "y," or "z," one condition applicable to these modified rates being that the Merchandise is carried at the Owner's risk.

Class Rate per ton not exceeding	Reduced Rates			Class Rate per ton not exceeding	Reduced Rates		
	Articles marked (*x*)	Articles marked (*y*)	Articles marked (*z*)		Articles marked (*x*)	Articles marked (*y*)	Articles marked (*z*)
	Per ton	Per ton	Per ton		Per ton	Per ton	Per ton
s *d*	*s* *d*	*s* *d*	*s* *d*	*s* *d*	*s* *d*	*s* *d*	*s* *d*
5 0	4 7	4 2	4 2				
5 10	5 5	5 0	4 7	45 10	41 3	39 2	36 8
6 8	5 10	5 10	5 5	46 8	42 1	39 7	37 6
7 6	6 8	6 3	5 10	47 6	42 11	40 5	37 11
8 4	7 6	7 1	6 8	48 4	43 4	41 3	38 9
9 2	8 4	7 11	7 6	49 2	44 2	41 8	39 2
10 0	9 2	8 4	7 11	50 0	45 0	42 6	40 0

Waggons.—It should be noted also that the provision of trucks is not included in the conveyance rates for Class A and certain other articles specified in other classes. Where not included the companies may charge for the **use of trucks** according to special rates. And where, for merchandise other than that specified in class A, the companies do not provide trucks, the rate is reduced. Many senders, such as colliery and quarry companies, use their own waggons, and there are private firms who make a living by keeping rolling stock in repair by contract and letting waggons out on hire.

Quantities.—Classes A and B are applicable to consignments of four tons and upwards. Smaller quantities are chargeable (i) at the next higher rate if not less than two tons, (ii) at the next rate but one if under two tons.

Class C applies to consignments of two tons and upwards. Less than two tons of "C" traffic would be chargeable at class 1 rates.

Any consignment not exceeding three cwt. is charged for at the **Small Parcels Rate**, and weights over three cwt.

are charged not less than the charge for three cwt. as shown on the "smalls" scale.

EXTRACT FROM

SCALE OF CHARGES FOR SMALL PARCELS BY MERCHANDISE TRAINS.

(BETWEEN STATIONS IN ENGLAND AND WALES).

Weight not exceeding	Rate per ton as in operation on 14th January, 1920, or issued thereafter											
c q lbs	18/- to 18/4	18/5 to 18/9	18/10 to 19/2	19/3 to 19/7	19/8 to 20/-	20/1 to 20/5	20/6 to 20/10	20/11 to 21/3	21/4 to 21/8	21/9 to 22/1	22/2 to 22/6	22/7 to 22/11
0 1 0	1 6	1 6	1 6	1 6	1 6	1 8	1 8	1 8	1 8	1 11	1 11	1 11
0 1 14	1 8	1 8	1 8	1 8	1 8	1 11	1 11	1 11	1 11	2 1	2 1	2 1
0 2 0	2 1	2 1	2 1	2 1	2 1	2 4	2 4	2 4	2 4	2 6	2 6	2 6
2 2 14	6 11	7 4	7 4	7 4	7 4	7 11	7 11	8 2	8 2	8 7	8 7	8 9
2 3 0	7 1	7 6	7 6	7 6	7 9	8 4	8 4	8 7	8 7	8 9	9 0	9 2
2 3 14	7 6	7 9	7 11	7 11	7 11	8 7	8 7	8 9	8 9	9 2	9 5	9 5
3 0 0	7 11	8 2	8 2	8 4	8 4	9 0	9 0	9 2	9 2	9 7	9 7	9 10

Thus 3 cwts. of ropes (class 2) from London to Colchester would be charged 9*s*. S. to S, the per-ton rate (without increase) shown in the rate book being 20*s*. 5*d*.

Mixed Consignments—Where different classes of goods are sent by the same trader in one consignment, higher rates for small quantities may be avoided by what is known as **bulking**.

EXAMPLE.

Traffic	Weight. T c q	Rate applicable.	Charges are made on
Flour - - -	1 0 0	Class C (min 2 tons) -	Actual weight
Oilcake - -	10 0	" "	"
Confectionery -	3 0	Class 2 - - -	Smalls Scale, or if cheaper, two or more descriptions may be combined and charged at the highest rate applicable to any of the portions so combined
Paper - - -	3 0	Class 1 - - -	
Extract of Meat -	2 0	Class 5 - - -	
Hardware - -	2 0	Class 3 - - -	
	2 0 0		

Thus rates recorded for a minimum weight higher than 3 cwt. (classes A, B, and C for instance), may be charged providing the weight of the *whole consignment* is up to or exceeds the highest minimum attached to any of the rates charged. And any two or more classes may be bulked together and charged at the rate applicable to the higher or highest class.

Special Charges.—In addition to the authorized class rates and charges for the use of trucks, the companies are empowered to make "Special Charges," not exceeding a reasonable sum, for

(i) Service rendered at sidings not belonging to the Company;
(ii) Collection and Delivery of Merchandise outside the terminal station;
(iii) Weighing:
(iv) Detention of trucks or prolonged use of accommodation;
(v) Service Terminals for A and B traffic;
(vi) Use of Coal Drops;
(vii) Services at a waterside wharf;
(viii) Any accommodation or services not provided for under the schedule.

Insurance.—Reference has already been made to the Land Carriers' Act, 1830. From the following *Classification* and abridged *Scales of Charges* it will be seen that the railway companies have grouped the articles to which the Carriers' Act applies, the first group being charged for insurance at only one-tenth of the rate attaching to class IV.

CLASSIFICATION.

CLASS I

1 Stamps
2 Maps
3 Silks, or Silks wrought up with other materials where the proportion of Silk is 50 per cent of the value or more
4 Furs
5. Clocks
6 Timepieces
7 Plated Articles
8 Coins, Gold and Silver
9 Gold and Silver, manufactured and unmanufactured
10 Jewellery not containing Precious Stones from or to Manufacturers or Factors
11 Watches
12 Gold and Silver Plate.
13. Hand-made Lace
14 Engravings
15 Trinkets
16 Bank Notes
17 Title Deeds
18. Writings
19 Bills of Exchange
20 Orders, Notes, or Securities for payment of money, English or Foreign

CLASS II

1 Glass of all kinds, except as named in Class IV
2 China from Manufacturers or Factors
3 Precious Stones, *set or unset*
4 Jewellery, *not* from or to Manufacturers or Factors

CLASS III

Pictures and Paintings

CLASS IV

1 Plate Glass (in plates exceeding 36 feet superficial in size each).
2 Glass (stained)
3 Glass (silvered)
4 Glass (bent)
5. China (other than from Manufacturers of Factors).

Certain goods are accepted for conveyance by Passenger Train only.

SCALES OF CHARGES.

Declared Value	Between all Stations in Great Britain, including the Isle of Wight				Between stations in Great Britain and (a) Ports in Ireland, when the carriage between the British and Irish Ports is wholly by sea (b) The British Isles				Between stations in Great Britain and (a) Ports in Ireland, when the carriage between the British and Irish Ports is partly by sea and partly by land (b) Interior Stations in Ireland			
	Cls 1	Cls 2	Cls 3	Cls 4	Cls 1	Cls 2	Cls 3	Cls 4	Cls 1	Cls 2	Cls 3	Cls 4
For	s d	s d	s d	s d	s d	s d	s d	s d	s d	s d	s d	s d
£25 or less in value	0 3	0 [illegible]	1 3	2 6	0 9	1 [illegible]	3 9	7 6	1 0	2 0	5 0	10 0
26 to £50 ,,	0 6	1 [illegible]	2 6	5 0	1 6	3 [illegible]	7 6	15 0	2 0	4 0	10 0	20 0
51 ,, 75 ,,	0 9	1 [illegible]	3 9	7 6	2 3	4 [illegible]	11 3	22 6	3 0	6 0	15 0	30 0
476 ,, 500 ,,	5 0	10 0	25 0	50 0	15 0	30 0	75 0	150 0	20 0	40 0	100 0	200 0
For every additional £25 or part thereof	0 3	0 6	1 3	2 6	0 9	1 6	3 9	7 6	1 0	2 0	5 0	10 0

The above charges apply irrespective of distance

No less charge than for £25 Articles exceeding £500 in value to be subject to special arrangement The Company reserves the right of inspecting all goods when the value and nature are declared as exceeding £10, to ascertain that the articles are in accordance with the declaration, and are in good condition, and well packed The Company also reserves the right of sending a representative to be present at the unpacking of such articles In the event of a consignment consisting of more packages than one, the value of each package must be declared separately, but the charge for insurance will be upon the aggregate value of the whole number of packages The packages must be sealed to the satisfaction of the clerk in charge of the Station or Receiving Office at which they are delivered for conveyance

Goods and Parcels by Passenger Train.—The railway companies are compelled to "afford reasonable facilities for the expeditious conveyance by passenger train of perishable merchandise," including *Milk*, *Butter*, *Cheese*, *Cream*, *Eggs*, *Fish*, *Fruit*, *Game*, *Meat*, *Poultry*, *Rabbits*, *Vegetables* and *Ice*, for which special charges are fixed, based on a classification and scales of rates contained in Part V. of the Acts of 1891 and 1892.

For general goods and parcels other than those mentioned above, conveyance by passenger train is more costly than by goods train, but it offers the advantage of greater speed. **Standard Scales of Rates** are issued by the Clearing House under the authority of the Minister of Transport.

GENERAL PARCELS SCALE.[1]

Weight not exceeding	Rate. 1 to 30 Miles.	Rate. 31 to 50 Miles.	Rate. 51 to 100 Miles.	Rate. 101 to 200 Miles.	Rate. Above 200 Miles.
lbs.	*s. d.*	*s. d.*	*s. d.*	*s. d.*	*s. d.*
3	0 11	0 11	0 11	0 11	0 11
7	1 4	1 4	1 4	1 4	1 4
105	4 1	8 0	12 0	15 11	20 0
110	4 1	8 2	12 3	16 4	20 5
112	4 1	8 2	12 3	16 4	20 5
Above 112 lbs	*Rates can be obtained at the Stations and Offices of the Companies.*				

OWNER'S RISK SCALE.

APPLICABLE ONLY TO CERTAIN PERISHABLE AND OTHER TRAFFICS.

The signing of a General Owner's Risk Agreement, or an Owner's Risk Consignment Note, is an indispensable condition upon which these rates are applied.

Weight. not exceeding	Rate. 1 to 30 Miles	Rate 31 to 50 Miles	Rate. 51 to 100 Miles	Rate. 101 to 200 Miles	Rate. Above 200 Miles. (except as shown in next column).	† *See below.*
lbs.	*s d*	*s. d*	*s d*	*s. d.*	*s d.*	*s. d.*
3	0 9	0 9	0 9	0 9	0 9	0 9
7	1 0	1 0	1 0	1 0	1 0	1 0

No consignment note is needed for goods sent at the General Parcels Rate, but the sender should see that he gets a receipt. The sender must, however, sign an *Owner's risk note* for goods sent at the O/R scale, to which only certain articles included in the official lists apply.

Exceptional Rates.—In addition to the special rates for perishable merchandise, there are other Exceptional Rates at which the companies of their own accord accept certain traffic, *e.g.* newspapers, returned empties, and goods sent at the **Loaded Van Scale** (for fifty cwts. minimum) applicable to luggage in bulk, refreshment contractors' and confectioners' vans and contents, portable theatres, truck-loads of plants and flowers, etc.

[1] The extracts are given merely by way of examples. The figures shown are not these now in force. Present scales may be obtained from any parcels office.

Extra Charges are made for Fragile Articles such as scientific instruments, *glassware, china,* etc., and* very Bulky Articles such as Millinery and Bird Cages.

Collection and Delivery, within the radius only, are included in the General Parcels Scale.

Payment of Carriage.—All charges for passengers train traffic are **pre-paid**, whereas goods may be sent by merchandise train "Carriage Paid" or "Carriage Forward."

Competition.—The railways of the United Kingdom have been the result of individual enterprise. The companies raised their own capital, and their shareholders have not all derived great benefit from their investment. The statutory powers which were necessary in order to enable the companies to carry out their undertakings did not give them a monopoly of transport for the territory in which they operate. Up to 1914 the railway companies competed with each other to a certain extent between centres (such as London and Sheffield or Manchester), connected by two or more different lines, and each sent representatives to canvas the various trading and manufacturing firms for traffic. Up to the 14th January, 1920, the companies were not permitted to charge more than the maximum rates allowed by statute, but they could charge as little as they liked. The actual rates obtaining during the existence of this system were for the most part lower than the maximum rates.

In the past, competing companies avoided ruthless rate-wars by mutual understanding at Railway Conferences, at which minimum rates were agreed for traffic between points connected by alternative routes. Another form of agreement was that known as the "Percentage Division of Traffic," amounting, roughly, to a pooling of receipts resulting from traffic over competing lines, and the equitable distribution thereof among the companies operating.

Government Control.—On the outbreak of war in 1914 the Government took possession of the railways and canals

to facilitate the movement of troops and war material, and an agreement was made between the Government and the Railway Companies under which the 1913 Net Receipts were guaranteed to the companies.

Government possession was retained under the Ministry of Transport Act of 1919 until the 15th August, 1921, on which date the railways were "de-controlled," and the guarantee ceased. A composition of claims outstanding in respect of Government possession of the railways was made in the Railways Act of 1921, whereby the sum of £60,000,000 was allocated to the railway companies to be distributed in accordance with the provisions of that statute.

Ministry of Transport.—The **Ministry of Transport Act, 1919,** provided for the appointment of a Minister of Transport "for the purpose of improving the means of, and the facilities for, locomotion and transport." Reference has been made already to the Rates Advisory Committee of the Ministry of Transport.

The powers of the Admiralty in relation to the dockyard ports, and of the Board of Trade in respect to the appointment of members of the Railway and Canal Commission remained, but all powers and duties of other government departments in relation to

(*a*) railways ;
(*b*) light railways ;
(*c*) tramways ;
(*d*) canals, waterways and inland navigations ;
(*e*) roads, bridges and ferries, and vehicles and traffic thereon (including motor 'buses) ;
(*f*) harbours, docks and piers,

and matters relating thereto, were transferred to the Minister. The Minister's authority, also contained in the Act, "to establish transport services by land or water," and to purchase privately-owned waggons, has not been exercised.

The Railways Act, 1921.—This statute introduces far-reaching changes, including the Re-organization of the

Railway System by fusion into "groups," the Regulation of the Railways as to working and equipment, the establishment of a Railway Rates Tribunal, and provision for the settlement of disputes as to Wages and Conditions of Service, the Interchange of Traffic and the rendering of Accounts, Returns and Statistics.

Grouping of Railways.—With a view to the re-organization and more efficient and economical working of the railway system of Great Britain, provision was made for the formation of the railways into four groups, *viz.*:

1. The Southern Group;
2. The Western Group;
3. The North Western, Midland and West Scottish Group; and
4. The North Eastern, Eastern and East Scottish Group.

The principal railway companies (to be called "constituent companies") forming each group are to be amalgamated, and other less important companies comprised in the same group absorbed by the amalgamated company. The schemes of amalgamation and absorption are to be submitted to the Minister of Transport on or before the 1st January, 1923, and will come into operation on the 1st July, 1923, each of the four amalgamated companies being incorporated under an appropriate name.

Thus the constituent companies of the Southern Group will be: The London and South Western; London, Brighton and South Coast; South Eastern, and London, Chatham and Dover Railway Companies; and the South Eastern and Chatham Railway Companies Managing Committee; whereas the subsidiary companies of that group include the Bridgwater Company, the Isle of Wight Railway Company, the Victoria Railway Station and Pimlico Railway Company, and others.

The difference between *amalgamation* and *absorption* is explained on p. 22.

The Railway Rates Tribunal consists of three permanent members, and is a court of record, having an official seal, and jurisdiction to deal with any questions that may be brought before them in regard to the classification of

merchandise, through rates, group rates, tolls payable by traders, amounts to be allowed for services or accommodation not provided, the reasonableness or otherwise of any charge or of any conditions as to packing of articles liable to be damaged or to cause damage, the articles and things that may be conveyed, the constitution of local joint committees and their functions and the centres at which they are to be established.

Litigants may appeal from the rates tribunal as they may appeal from the Railway and Canal Commission, but where an appeal lies the question will be determined, whether by the court of appeal or by the Court of Session, in accordance with the general rules made under the Railways Act.

The permanent members of the rates tribunal are appointed by His Majesty on the joint recommendation of the Lord Chancellor, the President of the Board of Trade, and the Minister of Transport. One must be a person of experience in commercial affairs, one a person of experience in railway business, and one, who shall be the president, must be an experienced lawyer.

CANALS.

Tolls.—Like the railways, the canal companies were originally authorized by their special statutes to charge certain maximum Conveyance Rates and Terminals, and in addition were allowed to levy charges known as "Tolls" for the use of the Canal, including rates for conveyance and wharfage.

Government Control.—The Government guarantee of net receipts to canal companies came into operation, in the case of the principal non-railway owned canals in England and Ireland, on 1st March, 1917, and ceased on 31st August, 1920.

Revised Rates.—The increases which have taken place in respect of a number of Canals and Inland Navigations have been directed individually, and are not covered by a

common notice such as those which were issued by the Clearing House on behalf of the Railways. Soon after the creation of the Ministry of Transport forty-six inland navigations, of which seventeen were owned by railways, made application and were directed to increase their charges by amounts ranging from 100% to 150%. The increases directed applied to the rates, tolls, dues and charges *in operation on the* 31*st July*, 1920, irrespective of whether these were up to the maximum or otherwise.

Exercise 7.

1. Write a short essay on the development of railway and canal transport in the United Kingdom.

2. Why are railway and canal companies known as "statutory" or "public utility" companies? State in general terms their statutory rights and obligations.

3. Explain the nature and functions of (*a*) the Railway and Canal Commission, and (*b*) the Railway Clearing House.

4. Why do traffic rates differ (*a*) for different kinds of merchandise, and (*b*) for different routes? And to what extent does competition exist, or has it existed between the various railway companies?

5. How are railway and canal rates fixed?

6. Of what use is the Railway Classification of Goods, and where may it be obtained? Explain how a goods traffic rate may be checked. What is the meaning of the letters "x," "y," and "z" in the general classification?

7. (*a*) I take a parcel to the Great Western Railway Receiving Office for carriage to Wolverhampton. The clerk asks me whether I will have it forwarded O/R. or C/R. I enquire if there is any difference in the rate, and am told that the rate C/R. is 5*s.* 8*d.*, against 3*s.* 2*d.* O/R. I decide to forward it O/R. and sign a consignment note accordingly. What do C/R. and O/R. mean respectively, and why should I be charged less in the one case than in the other. What is a consignment note, and why am I asked to sign one in this case? (S.A.cc.II.)

(*b*) There are several different forms of consignment note in use for general merchandise traffic. Describe their uses, and show exactly in what respect their conditions differ.

8. Supposing that you had to send a parcel of silver plate to a consignee some distance away, and that the only means at your disposal was the railway, what special precautions would you take when you handed the parcel to the railway company, and why? (S.A.cc.II.)

9. State precisely (*a*) why some consignments are made by goods train and some by passenger train, and (*b*) what special rules apply to conveyance of goods by passenger train.

10. What object may be served by "bulking" goods for conveyance by merchandise train? Give two examples.

11. Describe the functions of (*a*) the Ministry of Transport, and (*b*) the Railway Rates Tribunal.

12. Make out a statement of account rendered by the Dart Motor Co., Limited, of Bristol, to Mr. John Jackson, High Street Garage, Exeter. for goods supplied as follows:

March 3, £17 6 8; March 14, £12 2 6;
March 17, 3 14 2; March 26, 21 10 4. (D.C.C.II.)

13. Referring to the preceding question, Mr. Jackson deducts March 17th item, the goods having been returned, and pays for the remainder by cheque on the Western Counties' Bank, less $2\frac{1}{2}\%$ discount. Draw the form of cheque. (D.C.C.II.)

14. Write a letter as from the Dart Motor Co., Limited, acknowledging Mr. Jackson's cheque, and requesting that enquiries should be made about the goods returned, which the railway company has not delivered; state that when they arrive in good condition a credit note and formal receipt shall be sent. (D.C.C.II.)

CHAPTER VIII.

SEA TRANSPORT.

British Shipping.—What the locomotive has done on land the steamboat has effected by sea. As early as 1788 attempts had been made in Scotland to propel a vessel by steam; but the first effective steamboats were the *Clermont*, built by Fulton, an American, in 1807, and the *Comet*, launched by Henry Bell, of Glasgow, in 1808. The new means of transit opened a new era in the history of nations and the possibilities of political life; and to no country was the event of greater importance than to Great Britain, with her island colonies rising up in all parts of the world.[1]

It is not difficult to realize that Britain's greatness is due to, and depends upon her command of the seas. Abundant natural resources in coal and iron have enabled her to construct and fuel a large fleet of merchant vessels, and whereas her insular position makes her dependent upon imports for food and raw materials, her minerals and manufactures provide the necessary outward cargoes for return journeys. The following statement shows the tonnage of merchant ships of 100 tons gross and upwards belonging to the chief maritime nations in July, 1914, and July, 1920:

	July, 1914 (tons).	July, 1920 (tons)
United Kingdom (excluding British Overseas Possessions) - - -	19,256,766	18,330,424
British Empire - - - -	21,045,049	20,582,652
United States - - - - -	5,368,194	16,049,289
France - - - - - -	2,319,438	3,245,194
Germany - - - - - -	5,459,296	672,677
Italy - - - - - -	1,668,296	2,242,393
Japan (excluding sailing vessels) -	1,708,386	2,995,878
Netherlands - - - - -	1,496,455	1,793,396
Norway - - - - - -	2,504,722	2,219,388
Russia - - - - - -	1,053,818	534,547
Sweden - - - - - -	1,118,086	1,072,925
World's total - - - -	49,089,552	57,314,065

[1] *An Advanced History of England*, by Cyril Ransome.

The extension of the empire by conquest and colonisation has been a natural result of the development of Britain's commerce with foreign lands, and has provided at the same time a firm basis for further activity. At the present time many foreign countries are almost as dependent upon British shipping as Britain itself.

Sailing Ships.—Few new Sailing Ships are built nowadays, because the increased efficiency of steam vessels has made it difficult to obtain adequate rates of freight for slow and uncertain transport. Low speed, moreover, means small revenue to the owner on capital invested, as compared with the earning power of steamers making say three times as many voyages in the same time.

Sailing vessels generally sail with **full cargoes**, as they are not so easily got in and out of port as steamers. They are preferred for the training of apprentices, who can obtain better positions with the *Square Rigged Certificate* than if they have had experience only in steamers.

Motor Ships possess the advantage that their internal combustion engines take up less space than steam engines and boilers. Petroleum fuel also takes up less space than coal, and the filling of the oil tanks is more convenient and takes less time than bunkering. Many steam vessels use oil fuel instead of coal.

Steam shipping may be divided into four main groups : Mail boats, cargo liners, tramp and coasting ships.

Mail Packets.—The big mail boats are devoted mostly to postal and passenger service, speed and comfort being their outstanding features. The giant transatlantic steamers carry practically no cargo, and freight rates by the mail lines are so high as to exclude all but valuable goods.

Some of the biggest liner companies of the world are subsidized by their governments, who thereby encourage fast mail services, and secure a reserve fleet of merchant cruisers and transport ships for war.

Cargo Liners are advertised by their owners to make regular sailings with passengers and cargo, between certain points, and touching at certain ports. They are commonly known as **berth ships**, because they sail from "berths" or mooring places reserved for them at their regular ports of call.

Cargo liners invariably sail as **general ships**, *i.e.* they are not hired by senders of goods by them; they just load what they can at each port. "First come is first served," and goods sent down to the docks too late for shipment are "**shut out**," and have to wait for the next boat.

The cargo business is more profitable than the passenger traffic, and regular shippers (*i e.* senders of goods) receive **sailing cards** from the various lines, showing probable dates of departure, agents' name and docks to which goods should be sent for shipment, and **closing dates**.

The liner rates of freight are higher than those asked by shipowners who have not a regular service to maintain. On the other hand, shippers by the regular lines have the benefit of *regular sailings* and *steady freight charges*, which are the same for everybody, and do not put any one shipper in a worse position than his competitors.

If an exporter has a very large shipment to make (*e g.* a steam boiler, a locomotive, or say 500 tons of rails), he may obtain a special **freight quotation**, and make arrangements with the owners or their agents to **reserve space** for his goods.

Tramp Steamers are so called because their owners send them wandering anywhere in the world that attractive freights may be offered. The development of telegraphic communication, and the establishment of reliable shipbrokers and agents at all principal ports of the world, have made this class of business what it could never have become without such aids. From their offices in London or Liverpool owners are enabled to watch the freight market from day to day, receiving cable reports from their agents overseas, and to place contracts and divert their steamers at a

FIG. 5.—SAILING CARD.

moment's notice. Tramps form probably three-quarters of the world's shipping. They do not cater for passengers.

Unlike the berth ships, tramp steamers have no fixed scale of freight charges. They occasionally sail with general cargoes, but their owners usually let them out on hire or "charter," either (*a*) to merchants, usually on "voyage charter," or (*b*) to other shipping companies, on "time charter," for use as tramps or to augment their regular services. Some firms, having no vessels of their own, run general cargo services with steamers they have hired in this way.

The Regular Coastal Services are worked in the same way as other berth ships, and most of them take passengers too.

General Cargo Traffic.—Since "general" ships are not hired by shippers, and their owners do not guarantee to take any goods for which they have no accommodation, there can be no contract between owner and shipper until the latter's merchandise is on board the ship. The contract comes into being from the moment the goods are put on board, and is then embodied in a document called a

Bill of Lading (B/L), which serves three distinct purposes, viz.:

1. Evidence of shipment;
2. A contract of Affreightment; and
3. A document of title to the goods.

It is signed by the owners, *or* by their agents or ship-brokers at the port of shipment, *or* by the captain of the ship.

The contract of affreightment holds good as between the owners and anyone who may become entitled to the bill of lading, not only the shippers. Different forms are used for trade with the Baltic, the Far East, Australia, S. America, etc., but the conditions applying to each route are standardized to a great extent at Shipping Conferences, and adopted by most of the shipping companies. The clauses of the B/L here reproduced (Fig. 6) should be carefully

FOR

read and understood, in conjunction with what was said on p. 165 regarding the shipowner's liability at common law and under the Merchant Shipping Act, 1894. See also p. 227.

If a consignee is named (as in the example), the consignee becomes entitled to the goods, subject, however, to the consignor's right of stoppage *in transitu*.[1] Frequently Bs/L are made out "unto..............................*Order*..................," in which case the ownership of the goods remains the consignor's for the time being, and he must endorse the bill before sending it out, to enable the consignee to get delivery.

Anyone entitled to the goods may by endorsement authorize another person to use it. Endorsement may be **in blank**, consisting of the endorser's signature only, or **to Order**, in which case the words: "*Deliver to order of Messrs. . . .*" will precede the signature, and the transferee must himself endorse to obtain delivery or to transfer it. The person entitled to the goods is always required to sign.

A B/L is **a document of title**, and it partakes of the nature of *negotiable instruments* [2] in that by assignment of the B/L: (1) the property in the goods passes to the consignee, subject only to the seller's right of stoppage *in transitu*, and (2) the consignee acquires all rights of suit (*e.g.* to claim against the shipowners for short delivery, etc.) and liabilities (*e.g.* to pay freight due on arrival) as if the contract contained in the B/L had been made with himself.

Moreover, when once the consignee has endorsed and delivered a bill of lading for value to a third party, who took it in good faith, the shipper's right of stoppage *in transitu* is gone; but a thief, or a person who found a B/L, could confer no rights in it to anyone.

[1] See *Principles and Practice of Business*, p. 285.

[2] See *Ditto*, p. 241.

Freight Rates.—When a liner company is asked to quote a rate of freight, the rate clerk consults the company's **tariff**, which shows a varying scale of charges for each class of goods between various ports. British shipping companies classify goods for export into five classes: 1, 2, 3, 4, and Special. Class 1 is the highest of the first four, and the special class (including *Acids*, on deck, *Cement*, *Coke*, *Guns*, *Jewellery*, *Quinine*, *Watches*, etc.) is reserved for extra bulky goods, heavy lifts, dangerous, precious or other special goods taken only by special arrangement before shipment, and for which special rates are quoted.

Heavy goods (*e.g.* plates, rails, etc.) are charged per **ton deadweight** (d/w), whereas lighter and more bulky merchandise is quoted for at a rate per **ton measurement.** For some goods the quotation is **wt. or meast., ship's option**, which means that the shipowners reserve the right to reckon their charge either way—whichever may result more profitably to themselves. The measurement ton is usually 40 c. ft. for steamer traffic. Thus: 6 Cases each

5 ft. 0 in. × 3 ft. 4 in. × 2 ft. 6 in.

weighing 1 ton 17 cwt. 3 qr. at 20*s*. per ton wt. or meast., ship's option, would be charged:

On the measurement			
92½ cub. ft. at 20*s*. per 40 cub. ft. - -	£2	1	3
because			
On the deadweight			
1-17-3-0 at 20*s*. per ton of 20 cwt.			
owners would only get - - - -	1	17	9

If the average bulk of the cargo does not exceed 40 c. ft. the steamer is weighed down approximately to load-line before the holds are full, and the owner can earn full freight for every ton of the ship's d/w carrying capacity. But if all goods were charged on the deadweight he

would stand to lose by the holds being filled up with light stuff.

The measurement ton is usually 40 c. ft., but not always; for sailing ships it is usually 50 c. ft. Even on the weight, the freight ton is not always 20 cwt.; *e.g.* on the *Karachi scale basis* grain and seeds are charged for on a "grading" of from 13-18 cwt. Wheat is charged for per quarter of 380 lbs., Maize per quarter of 250 lbs., American cereals per bushel of 60 lbs., Timber per *Standard* of 165 ft., etc.

Usually freight quotations consist of a rate plus a percentage of the rate, *e.g.* "67/6 per ton meast. plus 10%." The extra is known as **primage**, and was formerly considered either as a gratuity to the captain or a fee for the use of the ship's tackle. It is now nothing more than a part of the freight. If the rate were quoted "67/6 per ton meast. plus 10% less 5%," the deduction (amounting to half the primage) might represent **discount** allowed on payment of the freight, or a "deferred rebate" (*q.v.*). Or a deferred rebate might be allowed as well as discount.

Shipping Rings.—Most European cargo lines combine in order to eliminate competition. Uniform bills of lading and rates of freight are agreed at **Conferences**, one for the Indian trade, another for the Australian, and so on. Members of the "ring" offer **deferred rebates** (payable quarterly or half-yearly) to shippers who undertake not to ship any goods over a certain route by "outside" steamers. When the rebate is due, a list of shipments with a declaration to this effect has to be signed by the shipper. Few are inclined to risk losing their rebate for the sake of an occasional offer by owners of a cheap vessel outside the ring.

A **secret rebate** is nothing more than an exceptional rebate granted to particularly desirable shippers, but not offered to other merchants.

Payment of Freight.—As a general rule freight for goods

carried by British ships is payable at the home ports, exporters in this country paying freight *in advance* and importers paying it *on arrival*. However, the freight on outward cargoes is frequently payable on arrival, and all perishable goods have to pay freight in advance.

Advanced freight is due on departure of the ship, and if not paid can be recovered by the owners, even if the ship is lost. If freight is payable on arrival, and the vessel is unable to complete her voyage, the shipowner is not entitled by English law to claim anything. But in most foreign countries shippers must pay freight **pro rata** for the part of the distance completed.

The Wharfinger.—At the home port the ship's business is entrusted to the superintendent in charge of the ship-owner's Dock Office, if there is one, or to a Wharfinger acting as the shipowner's agent. The wharfinger's main business is to attend to the discharging and loading of the company's vessels, and see that the regulations are complied with.

The Ship Broker.—In foreign ports the owners appoint agents called Ship Brokers to do the ship's local business. The broker's services extend to berthing and victualling the ship, engaging and paying the crew, arranging charters, and acting generally as agents for the owners in the ship's business at the port.

Discharging of Cargo.—On the arrival of a steamer at the berth, the wharfinger receives a copy of the ship's **Manifest** or Cargo List, enters the contents in his **Delivery Book**, and arranges for the packages to be counted or "**tallied**" as they are discharged from the vessel.

Meanwhile the importer must present his B/L at the office of the shipping company, who have a *particular lien* on the goods named therein until freight or other charges due on arrival have been paid. On payment of the freight account the shipping company hand to the importer a

Attached to Shipping Note at perforated edge.

Telephone No
Avenue 000

Proprietors
S. WELLER
P. TUPMAN

MATE'S RECEIPT.

...en and ... SAM. WELLER & CO.,

Pickwick Buildings, Harp Lane,

London,........................192....

E C 3

To the CHIEF OFFICER on board the......................

..........................Docks.

RECEIVED FROM.

in good order and condition, the following packages,
for shipment to . ...
ex Barge ....

hone No
nue 000

prietors
WELLER
TUPMAN

SHIPPING NOTE.

Lightermen and SAM. WELLER & CO., Shipping Agents

ENTS.

Pickwick Buildings, Harp Lane,

London, ...192. .

E C 3.

To the CHIEF OFFICER on board the ....

... . Docks.

PLEASE RECEIVE from ....
in good order and condition, the following packages,
for shipment to . . . .
ex Barge. .. . . .

...s	Nos	Packages	Contents
Total			

Chief Officer.

FIG. 7.—SHIPPING NOTE AND MATE'S RECEIPT.

Delivery Order addressed to the wharfinger, authorizing the latter to release the goods.

THE ANONYME STEAMSHIP COY., LTD.

To the MASTER PORTER,

....Dock,

Liverpool.

Please deliver to M...... .. ..
the following goods, ex s.s. " .... " at . . . .

Marks	Nos	Description and Contents of Packages

THE ANONYME STEAMSHIP COY., LTD.,

per.

FIG 8.—SHIPPING COMPANY'S DELIVERY ORDER.

If delivery is to be taken in barges or lighters the shipping company usually stamp on the back of the bill of lading a message called a **Freight Release** addressed to the chief officer in charge of the vessel. Then the released bill of lading, which takes the place of a D/O, is returned to the importer, who gives it to the Lightermen entrusted to take delivery over the ship's side.

London,. . ... 19. ..

To the CHIEF OFFICER on board the s.s. " .. .. "
from. ....

Please deliver the within mentioned goods, taking a receipt of Marks, Numbers, and Quantity as specified.

All charges to Consignees' account.

Subject to safe arrival in...................... . Dock.

THE ANONYME STEAMSHIP COY., LTD.,

per..............

FIG. 9.—FREIGHT RELEASE.

So far as goods landed at the berth are concerned, importers apply to the Wharfinger for delivery of their goods. The Wharfinger grants delivery only in exchange for the released Bs/L or D/Os issued by the office, and it is his responsibility to see that no goods are released until they have been examined and passed by the Customs officers, as illegal delivery would render the shipping company liable to a heavy penalty.

Lost Bill of Lading.—If a B/L should be lost, or the ship arrive before the documents, the shipping company will nevertheless deliver the goods, provided consignees give the company a letter indemnifying the company against any demands that may afterwards be made by any person presenting a B/L or otherwise claiming delivery of the goods. This **letter of indemnity** should be signed by the consignee's bankers as surety. If surety is given on a separate sheet it must have a separate 6*d*. stamp, in addition to the 6*d*. stamp required for the indemnity.

Shipment.—Merchandise to be loaded from the quayside may be addressed to the shipping company's Dock Office, or to the Wharfinger in charge of the loading vessel, or to the Dock Company for conveyance to the dock and shed at which the loading ship is berthed.

Goods arriving at the shed for shipment are checked with senders' delivery notes [**shipping notes**], on which the Wharfinger makes a special remark for any packages missing or damaged, entering the true particulars in his **Shipping Book**. From the particulars contained in the Shipping Book the Wharfinger prepares a **Cargo Sheet**, which is sent to the office to enable the shipping company to check the Bs/L before signing them. The Wharfinger has to see that all goods are properly marked, to arrange with the stevedore for the loading of the vessel, and to have the packages "tallied" as they are lowered into the ship's holds. Any discrepancies are noted on the Cargo Sheet, *e.g.* :

"5 C/s missing,"
"2 b/s broken,"
"12 C/s in dispute, will be delivered if on board.

If the loading is to take place from lighters, the goods are entrusted to a **Lighterage Company** with a Shipping Note (S/N) addressed to the chief officer in charge of the ship, who signs a **Mate's Receipt** (M/R) in acknowledgment of shipment In the example shown in Fig. 7 the S/N and M/R are printed together, one being a duplicate of the other. When the double document is presented, the chief officer signs the M/R, tears it off and returns it to the lightermen If it contains any remarks regarding damaged or missing packages it is called a "**qualified**" or "**foul receipt**" Otherwise it is a "**clean receipt**" The signed mate's receipt is handed to the shipping company in exchange for the signed bills of lading.

Preparation of Bills of Lading.—The Bs/L are usually prepared by a clerk in the exporter's office, who inserts the **port marks** and numbers of the cases or bales, etc., in the margin, and sometimes adds a calculation of the freight, though the latter is generally done by the shipping company.

The B/L forms are obtained at a commercial stationers or at the office of the shipping company, and are usually prepared in three or four copies. All but one of the copies are embossed with the 6*d*. Inland Revenue stamp duty.

The Bs/L are now taken to the shipping company's office, together with the wharfinger's receipt, or the mate's receipt if there is one. Any remarks on the Cargo Sheet which the shipping company has received from the dock office, or on the mate's receipt, are of course copied on to the B/L, which, like the M/R, will thus be either *clean* or *qualified*. The stamped Bs/L are then returned to the exporter duly signed, and the unstamped copy retained by the shipping company

The shipper usually sends two stamped copies to consignees, either (*a*) directly, say one by mail and another by

carrying steamer or perhaps by another mail route, or (*b*) indirectly, through the bank employed by the parties to pay for or collect the money for the documents.[1]

In due course shippers receive an invoice from the shipping company, called a **Freight Account** (Fig 10).

Indemnity for Clean B/L — Where goods have not been put on board in perfect condition, shippers may nevertheless get a clean bill of lading from the shipping company, by signing a letter of indemnity protecting the company against any claims the consignees may make against them. By this means shippers avoid the inconvenience that would result if the consignees refused to accept a qualified B/L, or if they made a heavy claim, the justice of which would be difficult to dispute from a distance. Having a clean bill of lading, consignees will claim for any damage or short delivery against the shipping company or their agent.

Charter Traffic.—Whereas for general cargo traffic the Contract of Affreightment

[1] See chap. VI.

M. .... B/L No....

Per. .... London.. ....192..

Dr. to FREIGHT per S.S. "Ionic" for Auckland.

Measurement	Marks	No	Packages	Content	Measurement Ft in	Ft in	Ft in	Weight t c q lb	t c q lb	Rate	£	s	d
	J	1/200	200 *Cases*	*Candles*		206 3				100/	25	15	8
										10%	2	11	7
											28	7	3

Fig 10.—Freight Account

is embodied in a B/L and executed after shipment, where the shipper hires or "**charters**" a vessel or part of her the contract is contained in a

Charter Party LONDON 19

It is this day mutually agreed between

for and on behalf of the owner of the good Ship or Vessel called the

of the measurement of Tons, dead weight or thereabouts, now

and of Merchants,

That the said Ship being tight, staunch and strong, and every way fitted for the Voyage, shall with all convenient speed, sail and proceed to

or so near thereunto as she may safely get and there load from the Charterers about

to be brought to and taken from alongside, free of risk and expense to the ship, not exceeding what she can reasonably stow and carry over and above her tackle, Apparel Provisions and Furniture and being so loaded shall therewith proceed to

or so near thereunto as she may safely get, and there deliver the same on being paid freight as follows

in full of all Port Charges and Pilotage (The Act of God, perils of the sea fire on board in hulk or Craft or on shore barratry of the Master and Crew enemies, pirates and thieves, arrests and restraints of princes, rulers and people collisions, stranding and other accidents of navigation excepted even when occasioned by negligence default or error in judgment of Pilot Master Mariners or other servants of the Shipowners Not answerable for any loss or damage arising from explosions bursting of boilers breakage of shafts, or any latent defects in the machinery or hull not resulting from want of due diligence by the Owners of the Ship or any of them or by the Ship's Husband or Manager) Charterers not answerable for any negligence default or error in judgment of Trimmers or Stevedores employed in loading or discharging the Cargo

The ship has liberty to call at any ports in any order to sail without pilots to tow and assist vessels in distress and to deviate for the purpose of saving life or property The Captain to have an absolute lien on the cargo for all freight, dead freight and demurrage

The Freight to be paid on unloading and right delivery of the Cargo

To load as fast as Ship and/or silos will deliver

The necessary cash for the Ship's ordinary disbursements to be advanced by Shippers at port of loading on usual terms days to be allowed the said Merchants (if the ship is not sooner dispatched) for loading and discharging

The Ship to address to Charterers Agents at Port of discharge paying commission

And days on Demurrage over and above the said laying days at Pounds per day

Penalty for non performance of this Agreement estimated amount of Freight

The Brokerage at per cent by the ship, on the amount of Freight, Primage and Demurrage, is due on signment of this Charter Party and payable to

Not liable for Strikes or combination of workmen

The Vessel to be reported and cleared out on her return to London by

The penalty for breach of this clause is agreed at £ as liquidated damages.

Witness to the Signature of

Witness to the Signature of

Printed by Geo. Young, 8 Harp Lane E.C. 3 (Tel Central 4631)

FIG 11.—CHARTER PARTY.

Charter Party (C/P), which may be executed long before the ship or cargo is ready. This document (Fig. 11) must

bear a 6*d*. I.R. stamp (adhesive or embossed), and is signed by (*a*) the **charterer**, and (*b*) the owner or his accredited agent, *e.g.* the shipbroker arranging the business.

A Voyage Charter may give the shipper the right to ship a full cargo (using all the cargo space) or part (*e.g.* a deckload) or a certain quantity (say "900/1100 tons Oran to Garston Dock").

The Freight may be charged in a **lump-sum**, regardless of how much cargo can be got on board, or **per ton**, the latter arrangement being safer for the shipper if he does not know by experience exactly how much the ship is capable of carrying. On the other hand, if the ship is chartered on a per ton rate, and the shipper fails to fill her up, he may be called upon to pay **dead freight** to make up an agreed minimum load.

Shippers are allowed a certain number of **lay-days** for loading and unloading. They are charged **demurrage** if the ship is detained, but are entitled to a reward called **dispatch money** if they can get her away before the stipulated time. Time gained in unloading may be set off against time lost in loading, and *vice versa*.

Where importers charter a whole vessel a bill of lading is not absolutely necessary, but it is found convenient to have one to record the quantity put on board, freight paid on account, captain's remarks, and generally to facilitate transfer of the goods.

In a few cases a bill of lading is combined with the C/P in one document.

Time Charters.—Whether a ship be hired for a voyage or for a period of time the owners usually retain control of the vessel, manning, victualling, bunkering and maintaining her. The owners also provide all necessary gear for handling cargo. If passengers are taken the charterers pay the owners a rate *per* passenger *per diem*.

For a time charter freight is usually agreed upon at a

rate per ton of the d/w carrying capacity of the vessel, without regard to the quantity conveyed.

The Freight Market.—Charter rates, unlike tariff rates, are a matter for separate bargaining, the charges being high or low according to the supply of and demand for tonnage in the market. The nature of the cargo is mentioned in the voyage C/P, but this is practically immaterial to owners, and has no influence on rates.

Freight Market Report from daily press :

LONDON FREIGHTS

The River Plate section shows only moderate interest in heavy grain, and rates are supported with difficulty Steamers up-river loading April are quoted 32*s* 6*d* to U K -Continent, with Mediterranean options at 2*s* 6*d* extra, while clipped oats from Bahia Blanca worth 35*s* prompt, with usual options Nitrate from the west coast of South America moves off slowly, but rates steady to United States and Europe Coals Northern States to Rotterdam quiet at $3 75, French Atlantic $4 25 to $4 50, Marseilles $5, West Italy $5 25 to $5 50, and Rio $5½ per ton Timber dull and tendency of rates weak, while there is no new feature respecting cotton, case oil, and general cargoes Bombay on dead-weight indicates 22*s* 6*d* and Karachi scale basis 20*s* to U K -Continent More distant ports attract but little notice, while Australian grain rules steady at 61*s* 3*d* to U K -Continent April-May shipment Mediterranean and Bay ports quietly steady for ore, while fruit from South Spain moves off at 40*s* per 100 cubic feet Time charter dull, with 6*s* 6*d* the nearest value of fairly large steamers for six months' trading Outward coal markets generally unaltered, and, though a fair number of orders are in circulation for near Continental and Mediterranean ports, actual business is slow to materialise

Shipbrokers meet owners' representatives on the **shipping exchanges** (the Baltic Exchange, in London), and arrange business as between owners and shippers Newspaper reports such as the above are prepared by journalists who have access to the exchange and its members.

Tariff rates, on the other hand, are agreed on at conferences, and are graded according to the general business maxim that valuable goods bear more freight than merchandise of low value, that precious or dangerous goods must be charged extra to cover risk, and that regular and important traffic should be encouraged by reasonable charges.

Shortage of Tonnage.—It has been already explained that railway and canal rates are limited by Act of Parliament.

The companies are thus prevented from exploiting the public by unduly raising their charges when the demand for transport exceeds the supply.

So long as shipping companies are free to charge whatever shippers will pay, a shortage of ships must inevitably result in big profits to owners to the detriment of trade. Enhanced freights alone increase the cost of goods—particularly raw materials and merchandise of low value per ton—but the evil does not rest there. A restriction of supplies provides opportunity for speculation, and causes prices to bound upwards to a degree that can only be limited by State interference for the protection of the consumer [1]

Exercise 8.

1. (*a*) What document, in the case of goods sent coastwise, takes the place of the consignment note used when goods are transported by railway? Explain, as fully as you can, three purposes which this document fulfils. (S.A.cc.II.)

(*b*) Is a bill of lading a negotiable instrument? Give full reasons for your answer.

2. (*a*) If a shipment arrives before the bill of lading, can the consignee obtain delivery without presenting the latter? If so, how? Will he require anyone else's help? (C.I.S.Inter.)

(*b*) How, and by whom, are Bs/L prepared?

3. Give reasons for the relative importance of sailing vessels, steam vessels and motor vessels.

4. What is the difference between "general cargo traffic" and "charter traffic"?

5. How are (*a*) railway, (*b*) shipping, and (*c*) canal rates fixed? (S.A.tpc.II.)

6. Explain fully how liner and charter freights are calculated.

7. What is a deferred rebate, and whom does it advantage?

8. Messrs. James Brown & Co., a shipping firm of Cardiff, are asked by Messrs. Lupton and Hanley, of Swansea, for a freight quotation on 500 tons tin plates Newport to Genoa,

[1] See *Principles and Practice of Business*, p. 28.

and 10 tons tin ingots Newport to Bilbao. (*a*) Draft James Brown & Co.'s reply from the following notes, and (*b*) explain precisely where Genoa and Bilbao are situated :

Quotations 500 tons tin plates Newport to Genoa, also 10 tons tin ingots Newport to Bilbao enclosed. Rates based on barge being alongside steamer (ss. " Vortigern ") on or before noon, 25th inst. Goods must be suitably packed, as James Brown & Co. cannot undertake packing, which is merchants' business. Quotation is offered for Messrs. Lupton & Hanley's acceptance to-morrow, failing which it is withdrawn. State of freight market is such that quotations only hold from day to day. No steamer leaving for these ports after " Vortigern " till s.s. " Ribble " on the 1st, and freight accommodation by that vessel is already exhausted. (S.A.cc.II.)

9. What is a Charter-Party, and what is the difference between a voyage charter and a time charter ? Name a few of the conditions commonly met with in each. How does a merchant or shipowner proceed when he wishes to charter a vessel ?

10. Explain : S/N, d/w ; dead freight ; advanced freight, freight *pro rata* ; release ; lien.

11. What is a mate's receipt ? Is it possible to obtain a clean B/L after the issue of a qualified M/R ?

(*a*) What effect have fluctuations in the cost of transit upon (*a*) prices, (*b*) the volume of trade ? (S.A.tpc.II.)

(*b*) How does tonnage affect (*a*) prices, (*b*) supplies ? (S.A.tpc.II.)

CHAPTER IX.

INSURANCE

Objects.—In a contract of Insurance the **insurer** undertakes, for a consideration called the **premium**, to *indemnify* the **assured** against pecuniary loss. The contract is contained in a document called a **Policy**, which in most cases must be stamped in accordance with scales of duty prescribed by the revenue laws. The premium is usually expressed as a percentage of the insured value.

Since the insurance contract is one of indemnity, it follows that the assured must have a pecuniary interest in the property insured, and indeed in the absence of such *Insurable Interest* the policy is legally void; it is a wager, not a contract of insurance. The same principle applies, subject to certain modifications, to Life Insurance. A policy on the life of a child or parent is not legally valid unless the assured has an interest in property dependent on the life of the child or parent; but a woman has an insurable interest in the life of her husband, and a man in that of his wife, and any person may effect a policy of insurance on his or her own life, expressed to be for the benefit of such person's wife, husband, children, or any of them. Similarly a creditor may insure the life of his debtor, but only to the extent of the debt.

Where property is insured the measure of indemnity is usually limited to the actual extent of the loss sustained by the assured, and in Fire and Burglary policies a clause is usually inserted whereby the company

"may, at its option, reinstate or replace the property stolen, damaged or destroyed, or any part thereof, instead of paying the amount of the loss or damage."

In Marine and Fire Insurance it is possible to effect a so-called *Valued Policy*, in which the value of the property is agreed beforehand (see p. 234).

In the case of a **Proprietory Office** or Insurance Company the fund from which claims are paid consists of the capital of the company, augmented by the premiums paid by the assured. In Marine Insurance an insurer is commonly called an Underwriter ; and marine policies are *underwritten* by companies, or by **Private Underwriters** (see p. 221).

A **Mutual Office** has no shareholders, and does not exist for the purpose of making a profit The capital of such societies has been subscribed in the first instance by the policy-holders ; profits are either distributed among the policy-holders in cash, or applied to reduce premiums.

Friendly Societies differ from other forms of mutual insurance in that the contributions of their members are voluntary, and their objects have been confined to such personal matters as relief in sickness, unemployment and shipwreck, death gratuities, endowment, and the insurance against fire of the members' tools To obtain a proper status Friendly Societies must be registered, and they thereby become subject to the Friendly Societies Act, 1896, the Collecting Societies Act, 1896, and the Friendly Societies Act, 1908. All registered societies are supervised by a central office, having a chief registrar and assistant registrars, and their constitution and rules are approved by the central office and are enforceable Societies which contract to pay benefits exceeding certain amounts are not registered.

A few **Co-operative Insurance Societies** [1] are also in existence.

In effect, insurance is always a form of mutual benefit, whether the insurer be an individual, a company or a society. From the amount received in premiums, the insurer pays claims and expenses, sets aside part of the surplus as a reserve, and retains or distributes the remainder as profit.

Without insurance a man in a small way of business might be completely ruined by a single mishap, such as a fire at his premises, the loss of a ship by which he had

[1] See *Principles and Practice of Business*, chap. IX.

consigned goods, an accident to his workmen, embezzlement by one of his employees, etc.; but all these and many other risks may be insured against. The risk is put on the insurance company or the "underwriters," and the insured charges the premiums against his regular trading expenses or against his profit on the transaction concerned.

For the insurer the business would be sheer gambling if he risked all his capital on one venture at a time. He derives continuous revenue from the business by *spreading out his risks* on many different policies, so that if any of them results in a claim his resources will not be crippled.

Development.—There is little doubt that Marine Insurance is the oldest form of insurance. It was certainly practised in the Levant so far back as 1300 A D, and the Lombards are credited with having introduced it into this country at the beginning of the sixteenth century.

Fire Insurance was first undertaken in 1680 by the *Fire Office* in London, which was a proprietary office. The first mutual office, known as the *Amicable*, started in 1696.

Life Assurance commenced in England in 1705 with the foundation of a mutual society called the *Perpetual Assurance*, and was first put on a scientific basis sixty years later, when Dr. Price prepared his "Northampton Mortality Tables" for the purpose of calculating premiums for different ages in accordance with the law of probabilities.

All other kinds of insurance now in existence originated in the latter half of the nineteenth century.

MARINE INSURANCE.

Marine Insurance is nowadays carried on to an increasing extent by limited companies, but in this country most of it is still done by private underwriters who are members of Lloyd's. An Underwriter (U/W) is an insurer—a person who signs or *underwrites* a policy of insurance. The term is usually, but not exclusively, applied to insurers of Marine Risks.

Lloyd's is not an insurance company. It is an association of underwriters and others concerned in shipping and marine insurance business.

The institution derives its name from a man named Edward Lloyd, who kept a coffee-house in Tower Street in the latter part of the seventeenth century. People used to meet to exchange business in the taverns and coffee-houses of old London, just as they do to this day in some of the smaller foreign ports, and Lloyd's was a favourite *render-vous* for sea-captains and those engaged in shipping. Through his seafaring patrons Mr. Lloyd collected information about the movements of ships at foreign ports, and eventually his coffee-house became the regular resort of underwriters, who went for the sake of the shipping intelligence they got there. In 1692 Lloyd removed his business to the corner of Abchurch Lane and Lombard Street, and in 1696 published his shipping intelligence in a newspaper, called **Lloyd's News**,—the forerunner of the present-day **Lloyd's List.** Lloyd's was by then much more than a coffee-house. It was a society and organized market-place. Ships and cargoes were sold there, and it was, as it is now, the centre of marine intelligence and insurance business. In 1774 Lloyd's moved to the Royal Exchange, where it still remains, and the association was incorporated by Act of Parliament (Lloyd's Act), in 1871, by which control was officially vested in the committee.

In addition to a large entrance fee and an annual subscription of twenty guineas, all underwriting members must deposit at least £5,000 to guarantee the due fulfilment of their obligations, part of the work of the committee being to see that claims are satisfied and the good name of the institution protected.

Lloyd's shipping intelligence is now collected by telegraph from agents stationed in all parts of the globe. Lloyd's List is published daily, and shows the movements of vessels

and casualties. The shipping intelligence columns of the daily papers are compiled from the same source; the subjoined extracts are examples.

SHIPPING INTELLIGENCE.

ESSEX (Federal), for Liverpool, left Halifax Nov 17
GAIKA (U C), Kilindini for London, passed Perim Nov 15
GUILDFORD CASTLE (U C.), Bombay for Liverpool, arrived Gibraltar Nov 20
HIGHLAND HEATHER (Nelson), for Liverpool, left Boulogne Nov 19
HIGHLAND LOCH (Nelson), from London, arrived Montevideo Nov 18
HIMALAYA (P and O), from Alexandria, arrived Marseilles Nov 17 4 p.m
INABA MARU (N Y K), London for Yokohama, arrived Port Said Nov 15
INDARRA (Orient), for London, left Gibraltar Nov 19

CASUALTY REPORTS
(FROM LLOYD'S)

Valentia Wireless Station, Jan 13--Norwegian s ONTANEDA, New York for Vaksdal, Norway, abandoned on beam ends in sinking condition on January 12, in lat 47 20 N, long 40 05 W All the crew taken off by British s. Fanad Head, proceeding eastward voyage

Valentia Wireless Station, Jan 12--British s Huanchaco with disabled British s BRITISH PEER, New Orleans for Barrow, in tow, in 49 49 North, 10 23 West, steering east true, speed six knots, 6 53 p m Later telegram from Valentia, Jan 13, states that s British Peer was reported by wireless at 9 2 p m yesterday

Bermuda, Jan. 13—American s PUTNAM, Alexandria for New York, 185 miles east, asking for assistance

Lloyd's Register is published annually, and contains information relating to navy as well as merchant ships. From it underwriters can see the nationality, owners, build, age, tonnage and **classification** of every vessel whose owners conform to Lloyd's rules and which has been surveyed. Each vessel is classified as to seaworthiness as **A1**, **90 A1**, or **80 A1**, the first being the best, and the last the worst class. The French Lloyd's, **Bureau Veritas**, classify ships as "I 3/3 1·1," "II 3/3 1·1," or "III 3/3 1·1."

The Insurance Broker.—Lloyd's underwriters have no direct dealings with the public; they work through the medium of Lloyd's Brokers.

The services of a broker are not indispensable to effecting a marine insurance policy with an insurance company, but shippers comparatively seldom deal direct, because the

broker's knowledge of the insurance market enables him to secure, in the matter of charges, an advantage which more than pays for his services. The broker receives his brokerage (usually 5% of the gross premium) from the underwriters or the insurance company, not from the insured. Companies dealing direct with shippers quote as to the broker, say 5% and 10%, *i e.* 5% brokerage and a discount of 10% of the premium less brokerage.

When giving instructions to a broker to effect an insurance the shipper should give a proper description of the goods, the name of the steamer, the voyage and the risks against which he wishes to insure, thus :

London, *5th July*, 19 .

Messrs. J. Bullard & Co., Ltd.,
0 Leadenhall Street,
E C. 3.

DEAR SIRS,

Please insure for us against all risks £110 value of 15 reels Wired Rubber Hose marked and numbered :

KC # 16/30
DURBAN

to be shipped for account of Messrs. K. Cumming & Co., of Durban, per s.s. "Kaffir" sailing from West India Dock on the 19th inst.

We trust you can place this insurance for us at a rate not exceeding that charged on the last occasion.

Yours faithfully,

In the course of the day the broker proceeds to Lloyd's in the Royal Exchange with the particulars of the proposed insurance on a separate piece of paper called a "slip." At Lloyd's the brokers offer their risks to the underwriters, who are seated around the underwriters' room, and the slips are initialled by those underwriters with whom the broker arranges business. If a broker is not satisfied with the rate quoted by one underwriter, he proceeds to ask another for what charge he is prepared to take the risk. If the value is great the same slip may be initialled by a

number of underwriters, each of whom takes a "line," *i.e.* a part of the value.

Having got the slips initialed the broker returns to his office, and sets his clerks to work writing out **Covering Notes** for his customers, and preparing the policies for the underwriters to sign in due course.

BROKER'S COVER NOTE.

Foreign Statement. York-Antwerp Rules and York-Antwerp Rules of 1890. Deviation Clause Free of Capture Clause

11 Cornhill,
London, ...19
E C 3

On slip for account of . ...
£ ... . at. . per ....
at and from . . ..
on. . . . .
Clauses . . . .
Underwriters

For J. Bullard & Co., Ltd.
. .. .
Director.

Fig. 12

The completed policy is endorsed by all the underwriters who have accepted the risk, each one signing his name opposite the value underwritten by him, in the following manner:

£600	*Daniel F Ellis*	*Five twenty-sixths*	*Six hdd pds of per J Bullard*
	Henry Brown	*one twenty-sixth*	
	A B McBeath	*three twenty-sixths*	
	John Meyers	*two twenty-sixths*	
	Arnold P David	*one twenty-sixth*	
	F Thomas	*one twenty-sixth*	
	A Steane Forbes	*five twenty-sixths*	
	W de Kupper	*four twenty-sixths*	
	Maurice L Howe	*four twenty-sixths*	

It should be clearly understood that, though the insurer is directly responsible to the assured for the payment of claims, the broker would be liable for any loss resulting from his own negligence in obeying the assured's instructions.

The Cover Note may simply take the form of a Debit Note, charging the assured with the premium and policy duty. If the assured does not employ a broker, he receives a cover note from the insurance company pending the preparation of a proper policy.

In any legal proceeding reference may be made to a "slip" or "covering note," but the contract has no legal effect without the policy.[1] In practice, however, the risk is covered as soon as the underwriters have initialed the broker's "Slip," and the assured need have no anxiety about getting compensation if news is received of the loss of his property before the policy has been issued.

The Policy.—Two forms of marine policy are here shown. The first (Fig. 13) is the standard **Lloyd's Policy** for marine risks, adopted by Lloyd's Underwriters in 1779, on the basis of which all other policies are constructed , the second (Fig. 14) is a typical **Company Policy**, being a facsimile with imaginary names of one actually issued by a London insurance company. For the purpose of simplicity, Lloyd's policy is here reproduced in blank form. The same form is applicable to an insurance of ship, cargo or freight, and it is commonly believed that the letters S G at the top of the margin stand for "Ship-Goods"; this is doubtful, however.

In order to meet special requirements, the original wording may be modified by crossing out what is not wanted and writing supplementary clauses into the body of policy or attaching them to it on printed slips. Such additions override the original wording of the policy.

In the margin and attached to the back of the policies reproduced here are a number of so-called "Institute Warranties." These are conditions drawn up from time to time by the Institute of London Underwriters. Many such conditions, known as "special warranties," constitute an

[1] Lord Ellenborough said in 1811: "The revenue laws forbid me to look at what is called a slip."

B

UNDERWRITING MEMBERS ACTS 1874

Be it known that

... excepted, and also from all consequences of hostilities or warlike operations, whether before or after declaration of war. ... and the consequences thereof, or of any attempt thereat,

And so we the Assurers are contented, and do hereby promise and bind ourselves, each one for his own Part, our Heirs, Executors, and Goods, to the Assured, their Executors, Administrators, and Assigns, for the true Performance of the Premises, confessing ourselves paid the Consideration due unto us for this Assurance by the Assured at and after the Rate of

IN WITNESS whereof, we the Assurers have subscribed our Names and Sums assured in

N B.—Corn, Fish, Salt, Fruit, Flour, and Seed are warranted free from Average, unless general, or the Ship be stranded; Sugar, Tobacco, Hemp, Flax, Hides, and Skins are warranted free from Average under Five Pounds per Cent.; and all other Goods, also the Ship and Freight, are warranted free from Average under Three Pounds per Cent., unless general, or the Ship be stranded.

(In the event of accident whereby loss or damage may result in a claim under this Policy, the settlement will be much facilitated if immediate notice be given to the nearest Lloyd's Agent.)

1-4-1913

FIG. 13 —LLOYD'S MARINE POLICY

[OVER

LLOYD'S, LONDON

London,

£

Policy and Duty

£

(Please examine this Policy and see that it is in strict accordance with your instructions.)

(In the event of accident whereby loss or damage may result in a claim under this Policy, the settlement will be much facilitated if immediate notice be given to the nearest Lloyd's Agent.)

The Pole Star

Craft to and from the vessel Each craft or lighter to be deemed a separate insurance

5 General average and Salvage Charges, payable according to Foreign Statement, if so made up, or York-Antwerp Rules, if in accordance with Contract of Affreightment

6 Held covered in the event of deviation and/or change of voyage from the terms and conditions of this Policy, provided notice be given by ASSURED on receipt of advice and any additional premium required be agreed immediately thereafter

7 Grounding within the limits of the Manchester Ship and/or Suez Canals, shall not be deemed a stranding within the terms of this Policy, except in respect of damage to the interest hereby insured, which may be proved to have directly resulted therefrom.

Company will contribute according to the Rate and Quantity of the Sum herein Assured. And it is expressly declared and agreed that no acts of the Insurer or Insured in recovering, saving, or preserving the property insured shall be considered as a waiver or acceptance of abandonment

And so the said Company, in consideration of the Person or Persons effecting this Policy promising to pay to the said Company a Premium at and after the rate of *20s. per cent., plus 7s. 6d., plus 2s. 6d.* per cent, is contented to take upon itself the burden of this Insurance to the amount of *One Thousand* Pounds and promises and binds itself to the Assured, their Executors, Administrators, and Assigns, for the true performance and fulfilment of the contract contained in this Policy

N B —Corn, Fish, Salt, Fruit, Flour, and Seed, are warranted free from Average, unless General or the Ship be stranded Sugar, Tobacco, Hemp, Flax, Hides, and Skins are warranted free from Average under Five Pounds per Cent And all other Goods (also the Ship and Freight) are warranted free from Average under Three Pounds per Cent, unless General or the Ship be stranded, sunk, burnt, on fire, or the damage be caused by collision

DELETED

In Witness whereof
I, the Managing Director of the said Company, have hereunto set my hand in London this *Twenty-fourth* day of *March, 1922.*

For and on behalf of

THE POLE STAR MARINE INSURANCE COMPANY, LTD.

Exd J S

Managing Director.

Ma 2a. U.

FIG. 14.—MARINE INSURANCE COMPANY POLICY.

[OVER

CARGO. **The**

Pole Star

Marine Insurance Co., Ltd.

No. | . a | c

192

£ @ % £ „

on

undertaking on the part of the assured regarding the nature of the risk, as for example the following :

"Warranted not to enter the Baltic beyond 13 deg. E. long., or sail from a loading port between 1st October and 1st April."
"Warranted not to sail with Indian Coal as cargo between 1st March and 30th June."

A **Special Warranty** is a stipulation contained in a marine policy, upon the literal truth or fulfilment of which the validity of the entire contract is dependent

Certain **Implied Warranties** apply to any marine insurance contract. Briefly summarized, these implied warranties stipulate :

(1) Seaworthiness of the vessel ;
(2) No deviation ; and
(3) Legality of the venture.

In case of accident a breach of warranty invalidates the contract, whether it is the cause of the accident or not.

Stamp Duty.—The Inland Revenue for **Voyage Policies**, on which the premium does not exceed 2/6 per £100, is one penny. If the rate exceeds 2/6% the duty is 1*d*. for every £100, or part thereof, insured. For **Time Policies**, the rate per £100, or fraction of £100, insured is 3*d* for any time not exceeding 6 months, or 6*d*. for any time not exceeding 12 months.

Contract of Affreightment and Policy.—It is evident that goods conveyed by sea ought to be insured against those risks for which the shipowner cannot be held responsible according to the terms of the B/L or C/P, or in regard to which his liability is limited by law.

With the law in its present state it would appear that the shipowner is entitled (in addition to enjoying the protection afforded by the common law and the Merchant Shipping Act) to contract himself free from every conceivable risk except that of loss arising from his own wilful misconduct. The whole question of the *Limitation of Shipowners' Liability by Clauses in the Bills of Lading* was recently considered [1] by the Imperial Shipping Committee, who recommended the passing of uniform legislation throughout the empire which should precisely

[1] In 1921.

establish the scope of the shipowner's liability, and the monetary limits of that liability.

A close examination of the clauses of the B/L here reproduced will show that the company in question remain liable in that particular case for

(1) wrong delivery (provided the goods are properly marked);
(2) loss of market sustained by reason of the goods being overcarried;
(3) improper stowage or handling by the shipowners' servants or agents of goods not specially excepted;
(4) pilferage (unless otherwise agreed).

But it is usual to find clauses in the contract of affreightment reducing or negativing the shipowner's liability in respect of Pilferage, Short Delivery, or other particular risk prevailing at the time, and the extent of the shipowner's liability in certain events is sometimes restricted.

Most Bs/L stipulate that all goods, immediately they are discharged from the steamer, shall be entirely at the risk of the consignees, and an additional clause is usually inserted to the effect that if the loading of the ship is, in the opinion of the master, likely to be interfered with by reason of labour disputes or congestion of traffic on docks, quays, railways or waterways or other causes, the ship shall be at liberty to discharge the goods already loaded and shall be under no further responsibility in respect of them. The shipowner, etc., may store the goods at the expense and risk of the owners thereof, but are under no obligation to do so. It is usually provided that where such events occur at or are likely to affect the Port of Discharge, the goods may be landed or put into lazaretto, hulk or lighter at any other available port, at the risk and expense of the owners or consignees of the goods.

In most cases the insurance broker knows better than the shipper the pitfalls which must be avoided, and it is his business to protect his clients' interests. It will be noticed that one of the "Institute Cargo Clauses" (No 7 at back of Fig 13) provides that the assured is not prejudiced by certain clauses contained in the bill of lading.

Total Loss.—A loss may be either total or partial. Unless a different intention appears from the terms of the policy,

an insurance against total loss includes a *constructive* as well as an *actual* total loss.

There is an **actual total loss** where the subject-matter insured is destroyed, or so damaged as to cease to be a thing of the kind insured, or where the assured is irretrievably deprived of it:

Where, for instance, a ship sinks in mid-ocean, or a deck-cargo is washed overboard, or where a consignment of foodstuff is rendered totally valueless through the incursion of sea water.

An actual total loss may be presumed when a ship is missing, and after the lapse of a reasonable time no news of her has been received. Actually, the "reasonable time" elapses when the vessel is "**posted**" at Lloyd's.

A **constructive total loss** occurs where the subject-matter insured is reasonably abandoned on account of its actual total loss appearing to be unavoidable, or because it could not be preserved from actual total loss without an expenditure which would exceed its value when the expenditure had been incurred.

Thus, if a ship insured for £80,000 stranded on a rocky coast, and surveyors reported she could be floated and repaired for £70,000, the owners could make no claim under an insurance against total loss.

In order to effect a claim for constructive total loss, the assured must give the insurer *Notice of Abandonment*, entitling the insurer to take over whatever may remain of the property insured: *e g.* the wreck, or the damaged goods.

Where the insurer pays for a total or for a partial loss, he is thereby entitled to all the rights and remedies of the assured in and in respect of the subject-matter so paid for, in so far as the assured has been indemnified. The transference of these rights and properties to the underwriter is called "**subrogation.**"

Particular Average.—"A particular average loss is a *partial* loss of the subject-matter insured, caused by a peril

insured against, and which is not a general average loss"

Under particular average are recoverable also so-called **particular charges** incurred in preserving the thing insured against damage, and **Extra-Charges** incurred when goods arrive damaged, and which would not have to be paid if the goods had arrived sound. The insured is entitled to claim as extra charges any extra cost of handling damaged goods, survey fees, sale charges (where the goods are sold by auction solely in order to ascertain their damaged value), the cost of re-conditioning damaged bales of wool or cotton by a process known as "picking," etc.

General Average.—A general average (G/A) loss is a loss caused by or directly consequential on a general average act. It includes a "general average expenditure" as well as a "general average sacrifice." There is a **general average act,** where any extraordinary sacrifice or expenditure is voluntarily and reasonably made or incurred in time of peril for the purpose of preserving the property imperilled in the common adventure.

EXAMPLE. *G/A Sacrifice.*—Jettison of cargo for the common safety is made good in general average, and damage done to a ship or cargo by water which goes down the ship's hatches, opened for the purpose of making a jettison for the common safety; damage done to a ship or cargo by water or otherwise in extinguishing a fire on board the ship; cutting away of masts or spars to avert disaster.

General average expenses are only those which are deliberately incurred in the attainment of safety.

EXAMPLE.—*G/A Expenditure.*—The cost of putting into a port of refuge, including towage, pilotage, port dues, and the cost of discharging cargo if necessary to effect repairs.

Where there is a general average loss, the party on whom it falls is entitled, subject to the conditions imposed by maritime law, to a **rateable contribution** from the other parties interested in the venture.

On arriving in port after the happening of a general average loss, it is incumbent on the master of the vessel to appoint professional experts, known as **Average Adjustors,** to prepare the Average Statement showing the amount of the G/A contributions due. Subject to any stipulation in the contracts of affreightment, the adjustment has to be made in accordance with the law obtaining at the port of destination, or at the intermediate port if the voyage be broken up. The B/L or C/P may expressly stipulate that G/A contributions shall be payable in accordance with such foreign average statement (F.G.A. = foreign general average), or that G/A shall be adjusted in the United Kingdom and in accordance with the York-Antwerp (Y/A) Rules [1] In principle the shipowner has a lien on the cargo for the contributions due in respect of G/A, and it is his duty to demand from consignees a G/A Deposit, or a Bond engaging to pay such amount as may be found to be due, before releasing the goods to them. As, however, all interests are usually insured, the shipowner frequently releases the goods on the guarantee of the underwriters that the contributions will be paid. If the loss has arisen from a peril insured against, the shipowners or merchants receive compensation under their policies, and it remains for the various underwriters concerned in the voyage to settle the matter of contributions between themselves.

Salvage.—For purposes of marine insurance, Salvage Charges are those charges which are recoverable under maritime law by a salvor, *independently of contract,* for assistance in averting a peril insured against. Salvage charges may be recovered under the policy as a loss by those perils.

The Memorandum.—As it stands, Lloyd's Policy covers the risk of particular average, except as provided in the postscript beginning "*N.B.—Corn, Fish, Salt,*" etc., called the "Memorandum."

The effect of the first part of the memorandum is to free the underwriters from any claim, however great, for partial

[1] A set of international rules on the question of average adopted at conferences held at Antwerp in 1887, and at Liverpool in 1890.

loss of goods named therein, except a general average loss, or unless the ship be stranded at any time during the venture. The second and third parts exclude such claims in respect of the subject-matter to which they refer, if amounting to less than a certain percentage known as the "**Franchise**." Under Lloyd's Policy, a loss exceeding the specified value is paid in full, whereas in most foreign policies the franchise is complete, inasmuch as it is entirely free from indemnity for average as provided in the clause.

In order to mitigate the harshness of this clause, where it is applied to valuable shipments, 5 or 3 *per cent* of which would amount to a considerable sum, an additional clause may be added to the policy whereby the insurers undertake to pay particular average on each package, or series of (say) ten packages numbered consecutively as shown in the Landing A/c, if amounting to 3% of the package or series. The marginal and special conditions shown on p. 356 should be carefully studied in this connection.

Risks Insured or Excepted.—Nearly all marine policies cover the risk of the insured having to pay general average contributions, but it is a common practice to exclude particular average.

F.A.A. means "free of all average," a term which is applied to a marine insurance from which both general and particular average are excluded

F.P.A. means "free of particular average." Where the subject-matter is insured warranted free from particular average, the assured cannot recover for a loss of part, other than a loss incurred by a general average sacrifice.

W.A. and **W.P.A.** mean respectively "with average" and "with particular average." The premium on a W.A. policy is naturally higher than that charged for an F.P.A. insurance, and in certain cases—such as a deckload of baled produce for instance—where the risk of damage almost amounts to a certainty, it is usual to exclude particular

average. On the other hand, a shipper of damageable manufactured goods, such as textiles or cutlery, may effect an economy by the use of strong, watertight packing, for goods packed in metal-lined cases are obviously less exposed to damage than goods packed in bales or ordinary wooden cases, and the w.p.a. premium is correspondingly lower. Indeed, a metallic lining, which effectually protects the contents against damp (though it is not much protection against heat), may be considered sufficient to warrant the shipper insuring f.p.a. and running the risk of damage. Whether such a course will effect an economy or not depends upon the relative charges and packing costs :

COMPARE

W.A. Premium *plus* Ordy. Bales or Wooden Cases.	F.P A. Premium *plus* Tin or Zinc-lined Cases *less* Proceeds from sale at destination of metallic lining, if zinc. (Old sheet tinned-iron is practically unsaleable.)

F.C. & S. means "free of capture and seizure." This clause (see "Institute Warranties," attached to policies here shown) is included in time of war, when an additional premium is usually charged for

War Risk (see policy).

R. & C.C. denotes "Riots and Civil Commotions" (see "Institute Warranties").

A.A.R. stands for "against all risks," including war and all other risks against which it may be necessary to insure in view of the terms of the B/L : *e.g.* Pilferage and Short Delivery.

Assignment.—The Marine Insurance Act, 1906, states that "a marine insurance policy may be assigned by endorsement or any other customary manner." Where

a marine insurance policy has been assigned so as to pass the beneficial interest in it, the assignee is entitled to sue thereon in his own name; and the defendent is entitled to make any defence arising out of the contract which he would have been entitled to make if the action had been brought in the name of the person by or on behalf of whom the policy was effected.

Claims.—In the event of a total loss of goods, the underwriters require the claimant to produce the Invoice and Bills of Lading, and possibly also a Declaration from the shipping company certifying that the goods were actually on board.

But if the goods are partially lost or are damaged, the underwriters require evidence of the extent of the loss or depreciation. In the case of manufactured goods, invoices and accounts may be produced as evidence, or the loss or depreciation may be certified by a **Surveyor.** Damage to imported produce is first certified on landing by the Surveying Officer to the dock company, and the extent of the damage subsequently declared by a broker, who gives a certificate stating the sound and damaged values of the packages in respect of which the claim is made. After sale the loss may be shown by comparison of the prices per lb. realized by the sale of the sound and damaged bales respecttively. Sometimes the warehouse company's certificate is sufficient (as in the case of wool).

Measure of Indemnity.—The sum which the assured may recover in respect of a loss on a policy by which he is insured is called the "measure of indemnity," and is determined, in the case of cargo or freight, not only by the extent of the loss; reference is also made (*a*) where the policy is a *Valued Policy*, to the sum fixed by the policy, or (*b*) if the policy is an *Unvalued Policy*, to the "**Insurable Value.**" The "insurable value" of goods is the prime cost plus expenses incidental to shipping and the charges of insurance on the whole.

The measure of indemnity for Total Loss of Ship, Cargo or Freight, is the sum fixed by the policy or the insurable value, according to whether the policy is valued or unvalued.

In the case of Partial Loss of Goods or Freight, the sum recoverable under P/A is proportional to the sum fixed by the policy or the insurable value (as the case may be). In particular, where goods have been delivered damaged at their destination, the assured is entitled to claim such proportion of the sum fixed by the policy, or of the insurable value, as the *difference* between the *gross* sound and damaged values at the place of arrival bears to the *gross* sound value.

No allowance is made for sale charges, nor, in the case of goods customarily sold " in bond," for duty.

EXAMPLE.

At public auction a shipment realizes :

Gross proceeds - - - -	£140
Less Sale charges - - -	20
Net - - -	£120

If undamaged, the goods would have realized :

Gross proceeds - - - -	£200
Less Sale charges - - -	20
Net - -	£180

Loss = £60.

Depreciation = the difference between £200 and £140
= $\frac{60}{200}$ or 30% of the sound value :

(*Not* the difference between £180 and £120
= $\frac{60}{180}$ or $33\frac{1}{3}$%.)

Recoverable in P/A . 30% of the insured value or of the insurable value, as the case may be.

Floating Policies.—A floating or " open " policy of marine insurance is one which is made to extend over a series of cargo shipments. The particular vessels and the values of each separate shipment are not specified in such a policy, but are left " open " until the shipments are made, when the shipper is bound to declare them.

Thus, a regular shipper of goods to Australia finds it more convenient to effect a floating policy for a round sum embracing a number of shipments, rather than to take out a separate policy for each. The "floater" might include say "£10,000 General Merchandise at and from any port or ports in the United Kingdom to any port or ports in Victoria or Queensland."

The value and description of each shipment is *endorsed* on the policy, until the lump sum is exhausted, when a new policy is effected. If any undeclared balance remains, a proportionate allowance—known as "**short interest**"—is made off the premium, and either returned to the assured or deducted from the premium payable on the next policy.

Floating policies save trouble, risk and expense. As each shipment is made, the assured has only to notify the broker who arranged the policy .

"Please declare off Open Policy No. 1134, dated 14th July, 19 : £870 Motor Parts, London to Brisbane per s.s. *Croesus*, sailing from Royal Albert Docks on the 19th inst., leaving a balance undeclared of £9,130."

If the assured should forget to declare a shipment, and the vessel be lost, he would not be prevented from claiming; and the floater saves him the trouble and expense of effecting separate insurances for each shipment, and preparing a number of separate policies Any wilful concealment by the assured with intent to make the policy last longer would be punishable as fraud, and would of course invalidate the policy.

Wager Policies.—A policy in which the assured has no insurable interest is known as a "wager policy" or Honour Policy. Such a policy is of no legal effect, but an underwriter who has agreed to become a party to it would not fail to meet his obligation under it, provided the true nature of the transaction had been explained to him. The motive of the agreement may be expressed in the words: "Interest or no interest," "P.P.I." (policy proof of interest), "Profit on 150 b/s wool," etc.

Double Insurance.—Where two or more policies are effected on the same adventure or interest, and the sum insured exceeds the indemnity allowed by law, the assured may claim payment from the insurers in such order as he may think fit, but he must give credit for any sum received by him under any other policy. If he receives any sum in excess of the indemnity allowed by law, he is deemed to hold it in trust for the insurers according to their right of contributions among themselves.

Re-Insurance.—An underwriter who has accepted a risk greater than he thinks prudent to retain may re-insure the whole or part of it with another underwriter. The re-insurance policy contains a declaration that it is a re-insurance contract, "subject to the same clauses and conditions as are included in the original policy and to pay as paid thereon"

Re-insurances commonly occur in connection with **overdue** vessels, or vessels reported on fire or stranded Reports such as the following are published regularly in the principal daily newspapers :

RE-INSURANCE MARKET

So far as could be ascertained the following rates were being paid or quoted yesterday at Lloyd's This list is not official

Vessel	Voyage and Casualty	Guineas per cent
CAPE HORN (*s r*)	Antofogasta, July 3, for Bordeaux Left Iquique July 13	20
WEST IMBODEN -	Galveston, Jan 1, for Liverpool In lat 50 53 N, long 14 53 W Cargo on fire	*
ERINPURA - -	Aden, June 14, for Port Said Ashore Mushéjera, near Great Hanish Island, Red Sea	50
KENTUCKY - -	Copenhagen and the Tyne, Dec 29, for Boston, ashore Skirsa Head, Caithness	40

* West Imboden has passed Old Head of Kinsale

The Spanish steamer *Olavarria*, which was reported in distress 10 days after leaving Tampa for Santander, has arrived at her destination Ten per cent. had been quoted for re-insurance Salvors are still hopeful of refloating the *Erinpura*, and, according to the latest telegrams, although the cross bunkers are flooded, the bulkheads are apparently tight The vessel, which represents a value of considerably over £200,000, now stands on the Overdue Market at 55 guineas per cent

The premium for re-insurance of a ship which is already a casualty may naturally be expected to be high, but an underwriter who has insured such a vessel may justly prefer to "cut his loss," by paying down a premium of 50% or more, to retaining the risk of having to pay the full amount if the vessel becomes a total loss.

EXERCISE 9.

1. How is insurance connected with commerce ? (S.A.tpc.I.)

2. (*a*) What is Lloyd's ?

(*b*) What is meant by describing a vessel "A1 at Lloyd's ? (S.A.tpc.II.)

3. Describe the purpose of the "insurance slip" and "covering note." Is such a memorandum as good as a full policy ? And what are the functions and responsibilities of the marine insurance broker ?

4. (*a*) To what stamp duties are marine insurance policies subject ?

(*b*) Explain the term "Warranty" as applied to marine policies, and mention examples.

5. Show in what respects a marine insurance policy is complementary to a bill of lading ; state for what losses a shipowner cannot evade liability ; and define the extent of his liability. (N.U.T.tpc.Inter.)

6. Explain : Subrogation ; Particular charges ; G/A Loss ; G/A Adjustment ; Salvage.

7. What risks are usually covered by a policy of marine insurance ? (S.A.tpc.III.)

8. What considerations might determine a shipper whether to insure F.A. or F.P.A. ? And in what manner, and by whom is compensation obtained from the underwriters ?

9. What measure of indemnity is recoverable by a merchant in the event of (*a*) total loss, (*b*) partial loss of goods insured under a marine policy ? How is a marine policy assignable ?

10. How many copies of a bill of lading are usual ? How many are stamped ? What are the usual provisions of a B/L relating to cost of storage due to labour disturbances ? (N.U.T.tpc.II.)

11. What is a floating policy of marine insurance ? (N.U.T.tpc.Inter.)

12. Explain : Double Insurance ; Overdue Market ; Franchise ; Mutual Office ; Proprietary office.

13. Write a letter in proper form containing the following information : A large consignment of fancy goods received from Paris by a Manchester warehouseman has been partially damaged through transit, some damage being caused by the railway company, and some by sea water ; the letter should describe the damage, and ask the exporter what steps he proposes to take. (U.L.C.cc.4.)

14. Write a letter declaring a shipment off open policy.

CHAPTER X.

DOCKS AND CUSTOMS.

Customs and Excise Duties.—The principal sources from which the State derives Revenue are, in order of importance: Property and Income Tax, Excise Duties, Customs Duties, and Estate Duties. Added together these four items amount in value to about three-fourths of the total revenue. Property and Income Tax and Estate Duties are included in the category known as *direct taxation*, being collected directly from the taxpayer or his estate. Customs and excise duties are forms of *indirect taxation*; the consumer of dutiable goods is charged the duty indirectly, through the merchant or producer, and pays it in the price of the goods he buys.

CUSTOMS DUTIES are taxes imposed on certain goods imported into this country. Import duties are levied on Beer and Ale; Chicory, Cider and Perry; Cocoa; Coffee; Currants, Figs, Plums, Prunes and Raisins, dried or otherwise preserved without Sugar; Spirits, Liqueurs, etc., and Perfumery containing spirit, sugar, glucose, molasses, saccharin, and articles containing sugar, *e.g.* fruit preserved in sugar, marmalade, and sweetened condensed milk; Tea; Wine; Tobacco; Chloral hydrate, Chloroform, Collodion, Ether, Ethyl; Motor Spirit; Playing Cards. *Ad valorem* (that is, *according to value*) import duties are levied on Motor Cars, Motor Cycles and Tricars; Matches and Lighters; Musical Instruments; other articles defined by the Board of Trade under the authority of the Safeguarding of Industries Act, 1921.

Excise includes (*a*) Excise duties administered by the Board of Customs and Excise, (*b*) Licences issued by the local authorities to sell Liquor and Tobacco, and Carriage, Dog, Game and Gun licences, and (*c*) Stamp Duties administered by the Board of Inland Revenue. Excise duties are chargeable on Beer, Chicory, Cider and Perry, Glucose, Lighters, Matches, Patent Medicines, Playing Cards, Saccharin, Snuff, Spirits, Sugar, Table Waters containing any sweetening material, and Tobacco.

The British Customs Tariff conforms in the main, but not entirely, to the principle of **Free Trade**, for which Sir Richard Cobden and John Bright agitated and which was established in 1841-6 by the Conservative Government of which Sir Robert Peel was Prime Minister Its object was to produce revenue from import duties, without interfering with the competition of foreign producers, who, in selling dutiable goods in our home market, must naturally include in the prices they ask the amount of the duty that has to be paid to the customs

Specific Duties.—In conformity with this principle British import duties are levied (*a*) on goods not produced in this country, such as Cocoa, Coffee, Currants, Raisins, and Tea; and (*b*) in the case of certain other goods, such as Beer, Spirits, Sugar, and Playing Cards, the influence of the tax on competition between home and foreign producers is *countervailed* by corresponding Excise Duties levied on the same commodities produced here All the commodities mentioned above are subject to *Specific Duties*, *i.e.* duties which are chargeable on the quantity. For the assessment of duty, the goods are weighed, measured or gauged by the Customs Authorities, not by the dock company or the importer.

Ad Valorem Duties. In 1916 an import duty was levied on certain manufactured articles of luxury, with no countervailing excise duty. This import duty applies to Clocks, Watches, Mechanically propelled Road Vehicles (not including commercial vehicles), Musical Instruments, and component parts or accessories to such articles. The rate is $33\frac{1}{3}\%$ (Preferential rate two-thirds of full rate).

Most foreign countries, including the British colonies, apply import duties to the protection of home industries (by increasing the price of foreign products by the amount of the duty), as well as to the raising of revenue. Particularly high **Protective Tariffs** are in force in the United States, Canada, France and Germany. The principle was revived in this country, after eighty years of free trade, by the passing of the Safeguarding of Industries Act, 1921.

BRITISH PROTECTIVE DUTIES.—The first *ad val.* duties, introduced during the war of 1914-18, were not intended as a protective measure; they were imposed in order to save shipping space for essential supplies, and discourage expenditure abroad on commodities that could be dispensed with, or pay the tax without weakening the economic condition of the country. But after the war lower rates of duty (specified in the official list in the column headed "Preferential") were introduced in favour of *all* dutiable goods imported from the British Colonies, and in 1921 the Safeguarding of Industries Act dealt a heavy blow to free trade in this country.

The first part of the Act refers to the SAFEGUARDING OF KEY INDUSTRIES, and provides that a customs duty of $33\frac{1}{3}\%$ *ad valorem* shall be paid on imported goods of certain general descriptions set out in the schedule, not being goods consigned from and grown, produced or manufactured, in the British Empire. No definition of "Key Industries" is given, but the term is commonly used to denote those industries which are concerned in the production of articles essential to manufacture. The schedule at the end of the Act includes optical, laboratory, and other scientific instruments and equipment, magnetos, arc-lamp carbons, hosiery latch needles, tungsten, and certain chemicals. The Board of Trade issues lists (obtainable at His Majesty's Stationery Office) defining the articles which are to be taken as falling under these general descriptions.

The second part of the Act has for its object the so-called PREVENTION OF DUMPING, and provides for the imposition of a duty on any goods other than articles of food or drink manufactured in a country outside the United Kingdom, where it can be shown that such goods are offered for sale in the U.K. at prices below the cost of production, or at prices which by

reason of depreciation in the value in relation to sterling of the currency of the country of manufacture, are below the prices at which similar goods can be profitably manufactured in the United Kingdom. Complaints regarding "dumping" are received by the Board of Trade, but orders for the imposition of duty require the approval by resolution of the House of Commons.

The basis for the assessment of all *ad valorem* import duties is the c.i.f. value (p. 320), or, if the goods are imported for sale on consignment, then the latest market value.

Dumping may be defined as *the practice of manufacturers of one country selling in a foreign market cheaper than at home.* In times of trade depression, when a factory is not working up to full capacity, a manufacturer may be reluctant to reduce prices at home for fear of spoiling the market for his whole output; but in selling to foreign markets he does not need to be so scrupulous, especially where the price of the article in the country to which he is selling is already increased by the imposition of an import duty. Apart from the abnormal conditions created by depreciated exchanges, circumstances may arise under which a manufacturer in one country may deliberately sell to other countries at prices below the **total cost of production**, although of course such action indicates an unhealthy state of trade, and would not be profitable as a permanent business policy unless the producer were assisted by a State bounty.

Dumping may occur where much capital has been invested in an industry to buy expensive equipment which, in times of bad trade, should be used even though only a slight margin may result towards payment of interest and maintenance. It may even be advisable to sell for a time at no more than **Prime Cost**,[1] *i.e.* the extra cost involved in producing an additional quantity without any allowance being made for fixed establishment charges, as where for instance a large amount of labour has been secured, which must be retained during a depression for times of greater prosperity, or where it is necessary to resist the invasion of a market by price-cutting competitors.

[1] See *Principles and Practice of Business*, p. 143.

Bounties.—Certain Continental industries (*e.g.* the production of beet sugar) have been encouraged by State premiums known as Bounties, paid to exporters. No bounties are awarded by the British Government.

The Custom House.—The activities of His Majesty's Customs are of two categories : (i) Revenue functions, and (ii) Non-Revenue functions. The **Revenue** functions consist of :

1. Collecting *Import Duties* (there are no export duties in the British tariff).

The **Non-Revenue** activities include :

2 Collecting *Statistics* of imports and exports for the Board of Trade
3. Enforcing certain Government measures : *e g.* the stoppage of goods infringing the *Merchandise Marks Acts*, or *Copyright*, or of improper literature, lottery advertisements, etc , and the control of goods to which Import or Export restrictions are applicable.
4. Assisting the State and the Port Authorities in
   (*a*) the enforcement of *Health Regulations* ;
   (*b*) the collection of *Tonnage Dues* (for the use of the port) ,
   (*c*) the collection of *Light Dues* (for maintenance of buoys and lighthouses by Trinity House) ;
   (*d*) the enforcement of Board of Trade Regulations, regarding the engagement and payment of *Crew*, and the safety of the ship as shown by the *load-line* or " Plimsoll mark."

Special formalities apply to :

(*a*) SHIPS.	(1)	Entry and Clearance Inwards ;
	(2)	,, ,, Outwards ; and
(*b*) CARGOES.	(1)	Importation of Free Goods ;
	(2)	,, ,, Dutiable Goods ;
	(3)	Exportation of Free Goods ;
	(4)	,, ,, Dutiable Goods "under Bond"—for exemption from duty, or on drawback.

CLEARANCE OF SHIPS.

Health Regulations.—Any vessel arriving from overseas off a British port must be boarded by a *Health* officer and obtain from him a **clean Bill of Health** before she is allowed *Pratique*, *i.e.* permission to communicate with the shore. This does not apply to coasting or channel steamers.

The health officer inquires whether the captain got pratique at the last port of call, and whether there have been any cases of cholera, yellow fever or other contagious diseases on board. If the replies are not satisfactory, any infected persons are removed to an isolation hospital on shore, and the vessel is put in *quarantine*; the holds and cabins are fumigated, and all necessary precautions taken. While in quarantine the vessel flies a yellow flag [1] to warn boats from the shore not to approach.

The Report.—A Customs Preventive Officer then inspects a list of the cargo, and all dutiable stores are put *under seal* until the ship is ready to sail again.

Passengers' luggage is removed to the Custom House for inspection, and if any refuse to pay duty the goods are put into the King's Warehouse, and, if not claimed within a certain time, sold by auction, the proceeds going to the State.

The captain must at once proceed to the ship broker's or agent's office and "report." The report (Fig. 15) is written out by the agent on a special form obtained from the C.H., and in the presence of the captain. The captain may appoint one of his officers to report for him.

The report is given a **Rotation Number** (say 1447/1922), which is inserted on every Customs document used in respect of the ship and cargo until the ship sails out again. Each ship arriving at the port is given a consecutive number from the 1st January of each year.

[1] The letter Q of the International code of signals.

If Sailing Vessel or Steamer

REPORT.

No. ______

No. 3 (Sale)

Official Number

Number of *Register*

Port of

Date of *Registry*

Ship's Name	Tonnage	British or Foreign, if British Port of Registry, if Foreign, Country to which she belongs	Number of Crew: British Seamen	Number of Crew: Foreign Seamen	Name of Master, and whether a British or Foreign Subject	Port or Place from which arrived
		Total				

CARGO.

1	2	3	4	5	6	7
Name or Names of Places where laden in order of time	Marks	Nos.	Packages and Descriptions of Goods, Particulars of Goods stowed loose, and General Denomination of Contents of each Package of Tobacco, Cigars, Snuff, Spirits, or Saccharin, intended to be imported at this Port	Particulars of Packages and Goods (if any) for any other Port in the United Kingdom	Goods (if any) to be transhipped or to remain on board for exportation	Name of Consignee
If any wreck or derelict was fallen in with, or sailed on, or icebergs observed, or any casualty to the vessel occurred during the voyage, particulars to be stated.						

STORES.

Surplus Stores remaining on board, viz.-

Tobacco Cav	lb	Perfumed Spirits	galls		
,, O.S	lb	Saccharin	oz.		
,, Unmanufd	lb	Tea	lb		
,, Cigarettes	lb.	Wine	galls	Playing Cards	No. of packs
Cigars	lb	Clocks	number	Sundry low duty goods	
	number	Chronometers	number		
Spirits	galls	Musical Instruments	number and description	Copyright Works	
Cordials or Liqueurs	galls			Live Stock	

Number of Passengers (if any) British ______ Alien ______ Total Number ______

Pilots' Names ______

At what Station Ship lying ______

Agent's Name and Address ______

I declare that the above is a just Report of my Ship and of her Lading, and that the particulars the[re]... true to the best of my knowledge, and that I have not broken bulk or delivered any Goods out of my said ship s[ince] from , the last Foreign Place of Loading, * except

*Delete if not applicable.

(Signed)

Master

Signed and declared this day of 192

In the presence of

(Countersigned)

pro Collector

FIG. 15.—CUSTOMS REPORT FORM.

Tonnage Dues are levied by the port authorities on all vessels arriving from or leaving for an overseas port. The toll is reckoned in pence per ton of the ship's tonnage (as

ascertained from the **Ship's Register** kept by the captain), plus the deck-load, if any (which is measured, and entered on a **Deckload Certificate**).

Light Dues are calculated in the same way.

Entry Inwards consists of the signature of the Report by the principal clerk of the Reporting Office of the C.H , after payment of tonnage and light dues.

Clearance Inwards.—The **Ship's Articles** are then deposited at the Mercantile Marine Office (a department of the Board of Trade) at the port, showing the names of the crew, their wages due, and conduct marks. It is at this "shipping office," as it is called, that the crew are paid.

After discharge of the cargo the ship is again boarded by a Customs *Rummaging Officer* or *Jerquer*, and a **Jerque Note** given to show that all dutiable goods have been declared. On receipt of the jerque note, the clerk of the shipbroker lodges at the Custom House a final **Inward Clearing Bill** (certifying the surplus stores allowed to remain on board), and Clearance Inwards is completed.

In practice the formalities and documents involved are more numerous than would appear from the above brief description.

Captain's Protest.—Soon after arrival of a ship the broker's clerk accompanies the captain to a Notary Public to "note protest," *i.e.* to make a declaration on oath as to any events that may have occurred during the voyage This is done to protect the owners from claims for damage to goods through no fault of their own. The captain may also protest against charterers' not having adhered to the terms of the charter-party.

Entry Outwards is made on an **Entry Outwards Form**, which the captain of the vessel signs. It states the name of vessel and master, port of registry or nationality, registered tonnage, destination, date of entry inwards, where ship is lying, if any inward cargo still remains on board for export, if ship commenced loading at any other port, and the name and address of her brokers. At the foot is stated

the distance from load-line to main deck (as shown in the ship's official **Load-line Certificate**).

No 10 (Sale)

H.M. CUSTOMS AND EXCISE

Master's Declaration and Stores Content for Vessels Outwards with Cargo.

Sailing Vessel
Steam Vessel

Official No
No. of Register
Date of Registry

Rot^n No.

Port of

Ship's Name and Destination	Number of Tons	If British, Port of Registry; if Foreign, the Country	Number of Crew	Name of Master	With or without Passengers or Troops

I, , Master of the above-named Vessel, do declare that the particulars set forth in this form are true and correct, and that all the requirements of the Merchant Shipping Acts respecting Outward-bound Ships have been duly complied with, *and I further declare that it is not intended that any coal, or other stores or goods, shall be carried as Deck Cargo,* and I hereby undertake that if Clearance is now granted and any Deck Cargo is carried, I will forthwith pay any further dues, which may become payable by reason thereof

I hereby nominate and appoint , of to be and act as my Agent in all matters relating to the Clearance of the said Ship required of me in that respect by the Customs Acts, holding myself responsible for his acts in such matters. } To be struck out if not applicable

Signed and declared this day of
192 , in the presence of

________________ *Master.*

pro Collector of Customs
and Excise.

Broker ________________

Address ________________

(Signed) ________________

Date of Clearance ________________ 192 . *Agent for the Master*

________________ *Clearing Officer.*

(For Stores Content see back.)

FIG. 16.—MASTER'S DECLARATION AND STORES CONTENT

No. 46 (Sale.) [Revised Edition.]

ENTRY FOR WA

(Importation Code, para. 544, and W

H.M. CUSTOMS AND EXCISE

Port

Dock or Station

§Importer's Name and Address

Ship's Name	Da

Marks and Nos	No of Packages	Description of Goods in accor Official Import L

Name and Address of §Consignor ____________

____

I enter the above Goods to be Warehoused in ____________

*NOTE —(1) In the case of goods which are invoiced at a quoted pr and insurance added (" c.i.f " value)

(2). When the goods are consigned for sale, the value to b

†The place whence the goods were consigned is not necessarily the pla place of last ownership

§The consignor is the last owner of the goods at the place from wh the consignor

Dated this day of

S.C 216625.

FIG. 17.—ENTRY F

SING.

...ule, para. 203)

Collector's No. and date.

	Port or Place of Shipment of Goods

	Quantity Net	* Value £	† Name of place whence Goods consigned

...arehouse, and declare the above particulars to be true.

...to be stated in the Customs Entry should be the prime cost with the freight

...be the latest sale value of such goods.

...ut it is the place from which the goods were procured by the importer, *i.e.*, the

...procured, and the importer is the person by whom they were so procured from

(Signed)

Importer or his Agent.

...OUSING.

Outward Dues.—Further tonnage and light dues are payable on sailing outwards *with cargo*, but vessels leaving *in ballast* pay no light dues. No tonnage or light dues are payable on space occupied by bunker coal required for the ship's use.

Engagement of Crew.—This is done at the Shipping Office in the presence of the Superintendent, who also examines the Board of Trade certificates of the captain, officers and engineers, and gives his **A A. Certificate**, stating that these are in order.

Victualling.—Although no duty is chargeable on stores for use on board, all surplus stores are put under crown locks while the vessel is in port, and special permission has to be obtained to load dutiable stores *out of bond* or *on drawback* The captain is given a **Victualling Bill**, enumerating the dutiable stores remaining on board " under seal as per Jerque Note," and those which he has been authorized to take on board ; he keeps this bill in readiness for any preventive officer who may board the vessel before her final departure.

Clearance Outwards.—In order to get his vessel " cleared outwards," the captain must sign a **Master's Declaration and Stores Content** (Fig 16), and produce the Ship's Register, the Outward Light Bill, the " A A " Certificate, and the " Pratique " (*i.e.* the bill of health to the port whither the vessel is bound) A card called a **Clearance Label** is obtained at the *Clearing Outwards Counter*, and attached to the Victualling Bill and Pratique by means of a paper fastener and *Clearance Seal*, also obtainable at the Custom House.

Clearance outwards consists of the signature by the Customs Clearing Officer of the Label, Victualling Bill and Pratique, after ascertaining that all the particulars in the declaration are correct, and that the dues have been paid.

. **Specification.**—Within six days of departure, the broker's clerk must hand in to the *Statistical Department* of the Custom House a **Manifest** containing a detailed specification of the cargo, and a **Bunker Coal Certificate**. The manifest is compared in the statistical department with the

No. 23 (Sale) [Revised Edition.]

Collector's No. and Date.

H.M. CUSTOMS AND EXCISE

This space is for the use of the Officers of Customs and Excise.

ENTRY FOR FREE GOODS

Port

Dock or Station

§ Importer's Name and Address

Examination	Ship's Name	Master's Name	Rotation No.	Date of Report	Port or Place of Shipment of Goods

Marks and Nos.	No. of Packages and Description of Goods, in accordance with the Official Import List	‡ Quantity	* Value £	† Name of Place whence goods consigned

Name and address of § Consignor

I enter the above Goods as free of Duty, and declare the above particulars to be true

Dated this day of 192 } (Signed)

Importer or his Agent.

Customs Code, Vol. II., Part II., Para. 1-13,

and S.C. 216625 Sec. $\frac{40636}{1920}$

* (1) In the case of goods which are invoiced at a quoted price the value to be stated in this Entry should be the prime cost with the freight and insurance added ("c.i.f." value).
(2) When the goods are consigned for sale, the value to be given should be the latest sale value of such goods.

† Note.—The place whence the Goods were consigned is not necessarily the place of origin, but it is the place from which the Goods were procured by the Importer, i.e., the place of last ownership

‡ The net quantity is required.

§ The consignor is the last owner of the goods at the place from which they were procured and the importer is the person by whom they were so procured from the consignor.

FIG. 18.—ENTRY FOR FREE GOODS.

separate specifications (p. 260) handed in by the separate shippers of cargo by the vessel.

ENTRY AND CLEARANCE OF CARGO.

It is not possible to give in one short chapter an exhaustive statement of Customs Formalities, but the above and the following indications show the main features.

Entry.—Entry of all goods imported must be made at the Custom House, in the "Long Room," (*a*) before the goods are unshipped, if they are liable to duty, or (*b*) before they are removed from the quay, if they are "free."

The forms of entry, which vary in detail according to the nature of the goods and whether they are for immediate consumption, warehousing or transhipment, must in every case show particulars of the importing ship, a description of the goods (in strict accordance with the official Import List), the quantity and value of the goods and the country whence they were consigned to the United Kingdom. The principal forms of entry are:

Entry for Free Goods (Fig. 18);
Entry for Free Goods in Transit on through Bill of Lading;
Entry for Home Use ex-Ship;
Entry for Warehousing (Fig 17);
Entry for Warehousing at another Port or Place.

Special forms of entry are used for goods liable to *ad valorem* Duties. One of these forms (Entry for Home Use ex-Ship of Goods liable to *Ad Valorem* Duties) is shown in Fig. 19 on the opposite page.

No. 107 (Sale).
(REVISED EDITION.)

ENTRY. FOR HOME USE EX-SHIP OF GOODS LIABLE TO *AD VALOREM* DUTIES.

Port of Importation ______________________ *Dock or Station* ______________________

Name and Address of (b) Importer ______________________

Name and Address of Merchant paying the Duty ______________________

Name and Address of (b) Consignor ______________________

(If Post) Prime Entry No ________ dated ______________________ 19

Ship's Name	Date of Report	Master's Name	Port or place of Shipment of Goods

Marks and Numbers	Number of Packages	(a) Quantity in Words and Description of Goods in accordance with the Official Import List	(c) Name of place whence Goods consigned	Quantity in Figures	(d) VALUE	Amount of Duty payable £	s	d
		Total amount of Duty payable on this Entry			£			

DECLARATION as to Quantity, Description, Value and other particulars.

(1) Name of Importer or Agent (e).
(2) Place of Business.
(3) Delete the words inapplicable.
(4) Money in words at length.

I [1] ______________________ of [2] ______________________
do hereby declare that I am the [3] *Importer or duly authorised Agent of* ______________________
who is the Importer of the goods contained in this bill of entry and that I enter the goods therein stated goods charged at value at the sum of [4] ______________________
and I further declare that the quantity, description, value, and other particulars above stated are true

Dated this ________ day of ______________ 19

Declared in my presence, (Signed) ______________________
Importer or Agent [3]

____
Collector or Officer of Customs and Excise.

N.B.—
(a) The trade name of the articles must be given in all instances together with the descriptions approved on the Official Import List. The original invoice giving details of the goods of each description must be presented with this entry. If the importer wishes the invoice to be returned to him, he must also produce a complete copy for retention by the Officer of Customs and Excise. Separate values must be given for each description of goods.
(b) The consignor is the last owner of the goods at the place from which they were procured; and the importer is the person by whom they were so procured from the consignor
(c) The place whence the goods were consigned is not necessarily the place of origin, but it is the place from which the goods were procured by the importer, i.e., the place of last ownership.
(d) In the case of all goods, whether invoiced at a quoted price or not, the value required to be stated in this entry is the price which an importer would give for the article if the article were delivered freight and insurance paid in bond at the port of importation.
(e) Any person claiming to act as agent for an importer must produce a written authority from the person on whose behalf he claims to act.

Notice.—Under section 168 of the Customs Consolidation Act, 1876 and section 16 of the Finance (No. 2) Act, 1915, a penalty is incurred by any person who makes and subscribes or causes to be made and subscribed any false declaration in any matter relating to th[illegible]

Collector's No. and Date

FIG. 19 —ENTRY FOR HOME USE EX-SHIP

Official List.—The following is an extract from the Official Import and Export List, which may be purchased from H.M. Stationery Office, either directly or through a bookseller, price 1*s*.

NOTE —Headings marked " I " apply to imported goods and to exports thereof. Headings marked " E " apply to exported goods, United Kingdom produce and manufactures All other headings apply to both imports and exports

Class I —FOOD, DRINK, AND TOBACCO —*contd.* Group (F) —OTHER FOOD AND DRINK, DUTIABLE—*contd*	Unit of Quantity	Rates of Duty on Importation. Full	Preferential
	—	£ s d	£ s d
E Beer and ale - - -	bl of 36 gall of a specific gravity of 1055 degrees		
I Chicory, raw or kiln-dried - - -	cwt	1 19 8	Five-sixths of full rate
I Chicory, roasted or ground - - - -	lb	0 0 6	
E Chicory, raw or kiln-dried - - - -	cwt		
E Chicory, roasted or ground –			
In bond - - - - - - - -	cwt		
Not in bond - - - - - - - -	cwt		
Class III—ARTICLES WHOLLY OR MAINLY MANUFACTURED—*contd*	**Unit of Quantity**		
Group (R) —VEHICLES (INCLUDING LOCOMOTIVES, SHIPS AND AIRCRAFT)—*contd* —	—		
Road, mechanically propelled—*contd*			
Motor cars, etc —*contd*			
Commercial vehicles (including passenger, scavenging and special service vehicles)	No		
Motor cycles and tricars - - - -	No	33⅓ per cent *ad valorem*	Two-thirds of full rate
Tractors (including steam-rollers) -			
Agricultural - - - - -	No & ton		
Other - - - - - -	No & ton		

NOTE —The rates of import duties shown are those in force on the 1st January, 1920

It will be noticed that the list shows the amount of import duty on each class of merchandise, as well as the official description and the manner in which the quantity, number or weight is to be declared.

Landing.—The importer or his agent must furnish two or more duplicates of the entry, whether for free or dutiable goods. The Customs Officer decides how many copies are to be delivered, and may require the importer to produce an invoice, bill of lading or other document relating to the goods.

Goods not liable to duty are entered on an "Entry for Free Goods." The original, known as the **Warrant**, serves as a warrant for delivery of the goods to the importer, and should be transmitted to the examining officer on board the ship, or where the goods are landed. The goods are released to the importer provided they prove, on examination, to be free of customs duty, and to satisfy the regulations referred to on page 243, § 3. If the examining officer suspects that the goods contain alcohol, sugar, or other dutiable ingredient, he places them under stop, samples them, and submits a sample to the Government chemist. If they contravene the Merchandise Marks Act, or any other Act or regulation, the goods are withheld pending directions from the Board of Customs and Excise.

As regards dutiable goods other than goods for immediate transhipment for a foreign destination, either (*a*) the duty must be paid at the time the entry is made, or (*b*) the goods must be entered for removal to a bonded warehouse.

All duties are by law payable in British currency. Payments are accepted immediately in the form of guaranteed cheques, or of Bank of England transfers. Payment by unguaranteed cheque is not finally accepted until the cheque has been cleared.

As all dutiable goods have to be entered before they are unshipped, and for the assessment of specific duties all goods have to be weighed, measured or tested by the Customs Authorities, it follows that where goods are required for immediate consumption the entry must be made—and duty paid on it—provisionally, and subject to modification after landing and official verification. The first entry (on the form headed "Entry for Home Use ex-Ship") is called the **Prime Entry**. If the true quantities are found to be more than those entered in the prime entry the excess is entered and paid on a second form, identical in other respects with the first one, and called the **Post**

Entry; if less, the difference is entered on an **Ever-Entry Certificate**, and refunded to the importer. Goods are in no case delivered to the importer until payment of all duty.

No. 44 (Sale.)

H.M. CUSTOMS AND EXCISE

Landing Order for Duty Goods.

________ *Office*, ____________ 191 _

To the Officer or Watcher of Customs and Excise in charge of the Ship ____________
From ____________
Station where lying ____________

Send in charge of an Officer or Watcher of Customs and Excise, or otherwise duly secured, to be delivered into the Custody of the proper Officer at ____________

Mark	No	Description of Packages and Goods

____________ Officer

FIG. 20.—CUSTOMS LANDING ORDER.

If the importer does not wish to take immediate delivery of the goods, but prefers to have them stored in a "bonded warehouse," he uses an "Entry for Warehousing," or an "Entry for Warehousing at another Port or Place." The *Warrant* is signed by the collector and, with a **Landing**

Order (Fig. 20), authorizes the examining office to examine and allow the goods to be landed for warehousing, or conveyed under bond for warehousing elsewhere.

If the importer wishes the final examination to take place at another wharf, he states his request on the entry, and the goods are conveyed to the desired station by bonded lightermen, or bonded carmen, as the case may be. The customs officer in charge of the ship hands the lighterman or carman a **Lighter Note**, or a **Cart Note**, addressed to the officer at the station of discharge (who has received a copy of the entry), which he shows on arrival at his destination. In this way the responsibility of the lighterman or carman for any disputed packages can be strictly enforced.

In every case a copy of the entry, called the **Bill**, is retained by the Customs Collector or Registrar, compared with the items contained in the ship's report, and forwarded to the statistical department for use in compiling the Board of Trade import statistics.

If the importer has not received sufficient invoice, bill of lading or other advice from which the quality, quantity or value of the goods may be ascertained, he must fill up and sign a **Bill of Sight** (Fig 21), and make a complete entry as soon as he is in possession of the necessary information. The Bill of Sight is used only for goods *Free of Duty* or *for Warehousing*, and serves the sole purpose of allowing the Officer of Customs and Excise to authorize the goods to be landed. The importer is allowed three days in which to "perfect sight," but if he is not able to do so within that time he may apply for an extension.

Bonded Warehouses for the use of importers generally are provided, not by the customs, but by private undertakers, namely the dock companies and independent bonded warehousemen (see foot of p. 158). Dutiable goods may be entered for any bonded warehouse approved for such goods, and may remain there for any length of time.

The bonded warehouses are a convenience to merchants, inasmuch as the merchants are enabled thereby to deal

in a greater value of goods than they could afford to handle if they had to pay duty immediately.

No. 31 (Sale)
[REVISED EDITION.]

H.M. CUSTOMS AND EXCISE

BILL OF SIGHT

Port of

Dock or Station

§Importer's Name and Address

Ship's Name	Rotation No.	Date of Report	Master's Name	Port or Place of shipment of Goods

Marks	Numbers	Number of Packages, with the best Description of the Goods the Importer is able to give

Name and Address of §Consignor

I, of the Goods above mentioned do hereby declare that I have not (or that to the best of my knowledge he has not) received sufficient Invoice, Bill of Lading, or other advice from whence the Quality, Quantity, or Value of the Goods above mentioned can be ascertained.

Dated this day of 19

(Signed) ____________ *Importer or*

(Signed) ____________ *Collector*

§ The consignor is the last owner of the goods at the place from which they were procured and the importer is the person by whom they were so procured from the consignor If the names and addresses of the consignor and importer cannot be given when the Bill of Sight is passed they must be supplied before the goods are delivered

Customs Code, Vol. II., Part II, par 37 Sec $\frac{29168}{1919}$

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FIG. 21 —BILL OF SIGHT (FRONT).

The duty may considerably exceed the c.i.f. value, as in the case of Wine (6*d*. to 3*s*. per gallon), Rum (£2. 10*s*. 4*d*. to £2. 15*s*. 4*d*. per proof gall.), Cigarettes (12*s*. 6*d*. per lb.).

The owner of goods in bond has free access to them for weighing, gauging, blending, packing or any other purpose,

but he cannot remove them out of the bonded warehouse until he has paid the duty.

Port of Importation **Dock or Station** ____________________

Importer's Name and Address

Ex. **@** **Date of Report**

In ______________ **of Sight** **Rotation No.**

Marks and Numbers	Place and country of destination in United Kingdom for Unmanufactured Tobacco and Spirits only	Number of packages, quantity in words, and description of goods in accordance with the Official Import List	* Name of place whence goods consigned	† Value	Duty £	s.	d.

Certified correct,

______________________ *Surveyor*

______________________ *Date*

To the Surveyor

Sir,

I request an extension of time from

to **in order**

to perfect sight

N B —The usual declaration must be added in MS This form is to be adapted for Free or Warehousing Entry

* The place whence the goods were consigned is not necessarily the place of origin, but it is the place from which the goods were procured by the importer, i e., the place of last ownership.

† (1) In the case of goods which are invoiced at a quoted price, the value to be stated in this entry should be the prime cost, with the freight and insurance added ("c i. f" value)

(2) When the goods are consigned for sale, the value to be given should be the latest sale value of such goods.

FIG 21A —BILL OF SIGHT (BACK)

Travellers' Effects.—Small quantities of tobacco and other consumable articles imported by passengers for their own personal use are admitted free of duty, and clocks, watches and musical instruments, being *bona fide* personal or household effects of travellers, are also admitted free under certain conditions.

Unpacking and Re-packing.—By law the unpacking of all goods for Customs examination, and their re-packing, must be performed by, or at the expense of, the importer.

Excise Regulations.—Distilleries, breweries and glucose factories are under *Excise survey.* Spirit and beer duties are the most important items of excise revenue, and the manufacture of both is closely supervised at every stage by an Excise Officer stationed at the distillery or brewery.

The amount of alcohol in beer being comparatively small, the home product is not bonded. It is removed from the breweries under an *Excise Permit*, and the duty is paid by the brewers every month.

Spirits, which are subjected to exceedingly heavy duties, are removed after manufacture to the Distillery Warehouses, from which they may be removed (*a*) on payment of duty, or (*b*) under bond, by means of a *Removal Warrant.*

If for home consumption the spirit is conveyed, after payment of the duty and issue of a Permit and *Certificate* of contents and strength, to Rectifiers and Compounders (for flavouring, sweetening, etc., again under Excise survey). A Permit and Certificate must accompany the goods wherever they go, to enable the Excise officer at destination to see that the merchant has not in his possession any more spirit than that which he is entitled to have.

If the spirit is required for Methylation, it is removed to the methylators under bond, and undergoes the process (mixture with wood or mineral naphtha) under Excise survey. Methylated spirits are free of duty, but must be accompanied by a Certificate on removal to the dealer or retailer.

Excisable goods may be exported on drawback or under bond in much the same way as imported goods liable to customs duty.

Exportation.—Export goods on which no drawback of duty is claimed, and which are not removed for export free of duty from a bonded warehouse, must be entered with the customs on a "**Specification,**" which is deliverable within six days of the clearance of the exporting vessel. The information required to be given on the specification (Fig. 22) is similar to that required on import entries, and includes the country of final destination of the goods. The

H. M. CUSTOMS AND EXCISE

*SPECIFICATION for British and Irish Goods only. No. 29 (Sale).

Except Coal, &c. (Form No. 29a), Arms, Ammunition, &c. (Form No. 26), and New Unregistered Ships departing on first foreign voyage (Form No. 5).

Port of__________ Ship's Name__________ __________ Master, for__________

Date of Final Clearance of Ship__________

*The Specification of Goods exported must be delivered to the proper Officers within six days from the time of the final clearance of the Ship, as required by Customs Laws.

Marks	Nos.	Number and Description of Packages	Description of British and Irish Goods in accordance with the requirements of the Official Export List	Net Weights or Quantities	Value† (f. o. b.)	Final Destination of the Goods
				TOTAL VALUE		

†The "f.o.b." or free on board, value should be given.

I declare that the particulars set forth above are correctly stated.

Dated__________ 192 (Signed)__________‡ (Countersigned)__________

(Address)__________ *Officer of Customs and Excise.*

‡Adding Exporter or Agent, as the case may be. 61942

FIG. 22 —SPECIFICATION FOR BRITISH AND IRISH GOODS ONLY.

description must be in accordance with the official export list. Special forms are used for:

British and Irish Goods only, except Coal, etc.
Foreign and Colonial Merchandise free of duty in transit on Through Bill of Lading;
Foreign and Colonial Merchandise free of duty, or on which all duties have been paid;

and other purposes. The specifications, together with the Manifests referred to on p. 250, are used for the compilation of the Board of Trade Statistics of British Exports Dutiable goods exported *under Bond* are entered on "Shipping Bills" (Fig. 23) and other documents.

Drawback.—Dutiable raw materials (leaf tobacco, sugar, etc.), imported for manufacture must be duty-paid on importation, but on the exportation of resultant manufactured products a "drawback" equivalent to the duty paid on the materials is allowable, subject to certain conditions.

Similarly, a refund of Excise duty is allowed on the exportation of commodities which have suffered Excise duty. According to circumstances, the refund is called *Customs Drawback* or *Excise Drawback.* Exporters of dutiable or excisable goods are thereby enabled to compete in foreign markets with the producers of other countries. Customs and excise duties and Drawback rates are approximate, but not identical in amount.

Drawback is payable on presentation of a **Drawback Debenture**, which contains a declaration by the exporter, certified by the Custom officer, that the goods have actually been shipped abroad, and will not be relanded in the British Isles. The Debenture is transferable, but the exporter *and* any subsequent holder must endorse it before payment will be made.

Export on Drawback and under Bond.—Goods liable to duty, in respect of which a drawback is claimed, must be produced for examination by an Officer of Customs and

PORT OF H.M. CUSTOMS AND EXCISE No. 38 (Sale)

Shipping Bill for Transhipment Goods only.

R. I Transhipments, pars. 11, 14, 17, 18

Export Ship Master for

Lying at the day of 19 .

Exporter

Address

Reported Inwards by the from

Lying at the day of 19

Carman or Lighterman

Marks and Numbers, final destination, and name and address of the Consignee	Number and Description of Packages	Goods	Value

Name and Address of the Exporter Officer

Date.

I declare that the quantity, description, and value of the Goods and all other particulars entered in this Shipping Bill are correct, and that the person for whom the Goods in question are ultimately destined is not a person who is an enemy or treated as an enemy under any law for the time being in force relating to trading with the enemy

Exporter or Agent.

Received the above-mentioned packages on board this Ship, 19 Master or Mate.

Countersignature of Officer of Customs and Excise.

Export Station and Certificate of Shipment to be inserted here

Officer.

19

or Carmen are particularly required to give immediate notice to the Export Examining Officer if t out of the Vessel, and on no account to take them to any other Ship than the

S.C 341798

FIG. 23.—CUSTOMS SHIPPING BILL.

Excise (usually at the exporter's own premises), and *Bond* must be given for their exportation. After execution of the bond, the exporter or his agent fills up and signs a **Bond**

Note, which is certified by the Clerk of the Bonds, and states that bond has been given. Shipment is finally verified by the Customs officer at the ship's side.

Similar procedure is followed to clear for exportation goods which are in a bonded warehouse, in which case the bond note takes the form of a *Warrant* for removal and for transhipment under bond.

Different forms of Bond and Bond Notes are used for exportation, (*a*) on drawback, (*b*) ex-bonded warehouse, and (*c*) by transhipment under bond. All bonds must be countersigned by a substantial surety ; in practice, a broker or a bonded lighterman or carman is asked to do this. Merchants frequently having occasion to export dutiable goods enter into a **general bond** to cover all movements of goods up to a certain duty value and give notice to the Clerk of the Bonds of each shipment. Entry in each case must be made on an appropriate **Shipping Bill** (not a specification). The exporter's clerk must see that he takes the right form, as there are many different bills for various purposes.

Special formalities apply to the exportation by **Parcels Post** of dutiable goods on drawback and ex-bonded warehouse.

Transhipment.—In London a great deal of business is done in importing goods for transhipment, *i.e.* conveyance from the importing vessel to another vessel, for re-export. Some of these transhipment goods arrive on what is called a **Through Bill of Lading**, which states that the goods are to be transhipped at London or other port. In this case the goods on arrival are conveyed from one vessel to the other by a licensed carman or lighterman, who obtains for the importer a signature to his S/N or M/R, as the case may be.

For free goods the importer uses the "Entry for Free Goods in transit on Through Bill of Lading," as a warrant to authorize transhipment, and a "Specification for Foreign and Colonial Goods Free of Duty in transit on Through Bill of Lading."

Dutiable goods for transhipment are entered on a **Transhipment Delivery Order** (Fig. 24), a " Bond Note for Transhipment and Exportation " and a " Shipping Bill for Transhipment Goods only." The goods are exported under Bond,

No 50 (Sale).

TRANSHIPMENT DELIVERY ORDER.

H. M. CUSTOMS AND EXCISE

To the Officer of Customs and Excise in charge of the

Master @

Lying at ... .

Send under Revenue Lock or in charge of a Watcher to be delivered into the custody of the proper Officers at

for transhipment only on board the

for

Nos. Description of Goods.

FIG. 24.—CUSTOMS TRANSHIPMENT D/O

after execution of which the Clerk of the Bonds signs the Bond Note authorizing, together with the D/O, removal under the invigilation of a " watcher " to the exporting steamer.

DOCKS, WHARVES AND WAREHOUSES.

Port Rates or Harbour Dues are payable to the port authorities on all goods imported or exported, and are calculated in pence per ton. Port rates on goods correspond in effect to tonnage dues on ships. The shipping agents and other regular shippers of goods usually run a **deposit account** with the port authorities, receiving a voucher (Fig. 25) for rates chargeable to each shipment.

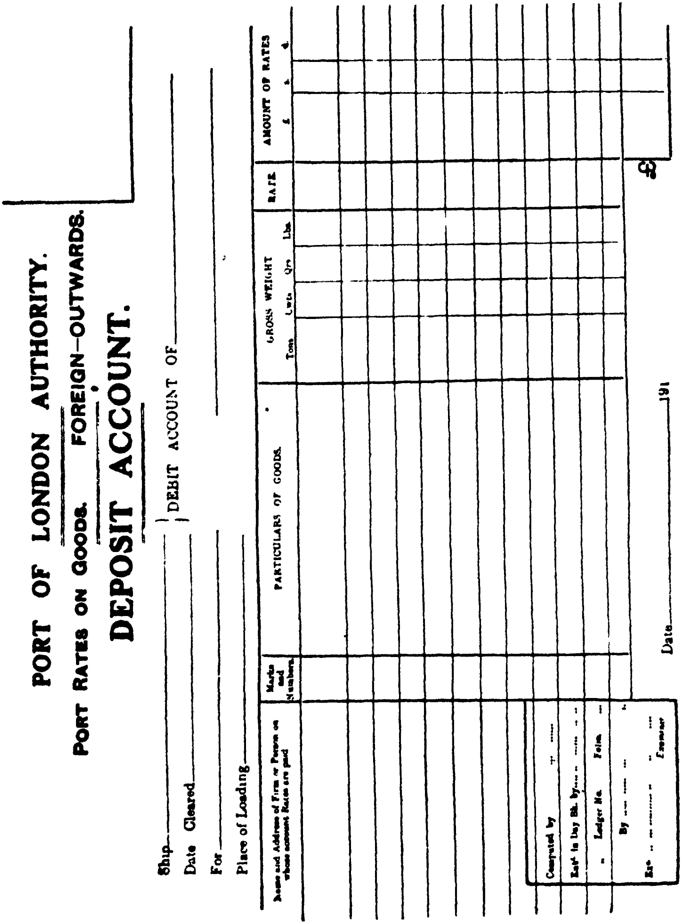
Dock Dues and Wharf Charges are paid for services at the dock or wharf. Such services are generally more numerous on importing than on exporting.

The Port of London.—All the London **Docks**, except the Regent's Canal Dock, are now owned by the **Port of London Authority** (P.L.A). The P.L.A. also owns a number of **Warehouses**, bonded and unbonded, and is responsible for the dredging and conservation of the Thames below Teddington Lock, and for the licensing and control of watermen and river craft. The **Riverside Wharves** are not, however, the property of the P.L.A.

The Port of London Authority was established by the Port of London Act, 1908, "for the purpose of administering, preserving and improving the Port of London, and otherwise for the purposes of this act." The Port of London Authority is a body corporate (see p. 11), consisting of a chairman and a vice-chairman appointed by the Authority, eighteen members elected by payers of dues, wharfingers and owners of river craft, and ten members appointed in fixed proportion by the Admiralty, the Board of Trade, the London County Council, the Corporation, and Trinity House.

The undertakings of the former London and India Dock Co., the Surrey Commercial Dock Co., and the Millwall Dock Co., were transferred to the Authority in exchange for Port Stock; and the Authority was also empowered to purchase, with the consent of the Board of Trade, and carry on any undertaking to afford accommodation or facilities for loading, unloading or warehousing of goods in the Port of London, and if unable to come to an agreement with the owners to promote a Bill in

Parliament for the purpose; to construct and equip docks, s, wharves, jetties, piers and buildings, railway and other



PORT OF LONDON AUTHORITY.

PORT RATES ON GOODS. FOREIGN—OUTWARDS.

DEPOSIT ACCOUNT.

Ship______ DEBIT ACCOUNT OF______

Date Cleared______

For______

Place of Loading______

Name and Address of Firm or Person on whose account Rates are paid	Marks and Numbers	Particulars of Goods	Gross Weight Tons	Cwts	Qrs	Lbs	Rate	Amount of Rates £	s.	d.

Computed by ...
Entd in Day Bk. by ...
Ledger No. ... Folio ...
By ...
Exd ... Examiner

Date______191

FIG. 25.—PORT-RATE VOUCHER.

works in connexion therewith; to purchase and take land, by agreement or otherwise; and to impose dues, rates, tolls and other charges.

The powers of the Thames Conservancy in respect of the lower river, and certain powers formerly exercised by the Watermen's Company were also transferred to the Authority.

Most vessels arriving in the Thames proceed to the docks to discharge their cargoes ; the remainder berth at the river wharves or moor in mid-stream. Though most imported cargoes are discharged on the quays, large quantities of merchandise are unloaded into lighters, which come to the docks, or go alongside the vessels unloading in the docks or in the open-river, and take delivery "overside," to convey the goods to other wharves or landing places, or tranship them for re-export.

Port Services.—The first service rendered by the Dock or Wharf Company is to attend to the landing of the goods from ship or lighter, and to weigh, pile, and enter each package or series of five or ten packages (called a *draft*) in a **Landing Book**. In the case of rice, tapioca, etc., each bag is examined by an export **Sampler** employed by the dock company, who sees that it is sound, and draws a sample. Damaged bags or bales are put aside and entered last, after further examination and classification according to the extent of the damage. The Importer then receives a **Landing Account** (Fig. 26), showing, among other particulars, the date of the landing, from which rent will be incurred. The cause of the damage to the damaged packages is certified by the dock company on a **Certificate of Survey**, which the importer shows when claiming compensation from the underwriters (see p. 234).

Other services rendered by the dock and wharf owners are warehousing, opening and re-packing for Customs examination, sampling, exhibiting for inspection by prospective buyers, delivery to buyers, and even advancing money to the importer on the security of his goods. If the goods are to be sold by auction, preparation for sale includes re-piling in suitable "Lots" under the direction

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PORT OF LONDON AUTHORITY.

Wool Warehouses
London & St Katharine I

24 day of February 1910

Landing Weight Account

Of 21 Bales Wool

Per the Ship "Soranus"

Master Jenks

From Sydney

Entered by John Brown & Co

ABC
XYZ

Mark and Number	Cwt	qrs	lbs		Mark and Number	Cwt	qrs	lbs
1	2	1	7					
2	2	2	6					
3	2	–	14					
4	2	1	21					
5	2	2	2					
6	2	2	3					
7	2	–	7					
8	2	1	16					
9	2	1	24					
10	2	2	–					
11	2	2	2					
12	2	2	1					
13	2	2	–					
14	2	2	–					
15	2	1	7					
16	2	1	6					
17	2	2	2					
18	2	2	4					
19	2	1	21					
20	2	2	4					
21	2	1	7					
21	50	3	7					

Scored. Dumped

FIG. 26.—DOCK LANDING ACCOUNT.

of an expert broker employed by the importer. After lotting, the importer and his broker receive a new weight account (Fig. 27), showing the numbers and weights of the bales in each lot.

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PORT OF LONDON AUTHORITY.

Wool Warehouses, London & St. Katharine Dock ______________191

Weights of Bales Wool.

____

From______________________

Lotted in M______________________

No.________Public Sale______________________19

LOTS	Nos.	WEIGHTS				LOTS	Nos.	WEIGHTS			

FIG 27 WEIGHT ACCOUNT OF LOTS

Many of the bonded and other warehouses are some distance from the ports, and some are situate in inland towns; in such cases the warehouseman or the importer arranges for the goods to be carted or transported by rail from the docks to his premises. Usually each warehouse company specializes in a certain class of produce, such as wool, or general produce not liable to duty, or is licensed to keep wine and spirit vaults, or special bonded warehouses for tea, or tobacco, or coffee, cocoa and sugar, etc

Warehouse Receipt.—Importers and merchants depositing goods in the charge of a Dock Company, Wharfinger or Warehouseman, usually receive a document stating that the goods are there and at the owner's disposal. This document is called, according to circumstances, a **Wharfinger's Receipt** or **Warehouse-Keeper's Receipt** (sometimes called a **Warehouse-Keeper's Certificate**). As a document of this kind is nothing more than an acknowledgment of receipt, no useful purpose would be served by transferring it

Delivery Order (D/O).—As the importer or merchant sells his produce, he hands his customers Delivery Orders requesting the Dock Company or Warehouseman to deliver the whole or part as stated, and possibly includes on the order instructions as to what charges, if any, shall be borne by the buyer. The holder of a D/O may split up his purchase and deliver piecemeal to his own customers by handing to the warehouseman the D/O endorsed : "Please deliver against sub-orders," and issuing separate D/Os to his customers. For dutiable goods the D/O may be marked, "DUTY PAID" or "IN BOND," according to whether the price paid by the buyer includes duty or not.

For the purposes of the Factors' Act, 1890,[1] the D/O is a document of title, but apart from that it is nothing more than a *promise to deliver*, and it may be revoked. Delivery is not complete until the bailee (see p. 163) has communicated with the buyer or person named in the order, and thereby "attorned" to him—*i.e* become his agent.

PARADISE SHIPPING AND STORAGE CO

Series No Rotation

WARRANT for

imported in the Captain

from entered by

on the deliverable to

or Assigns by endorsement hereon

Mark	Numbers		Weight					
			Gross			Tare		
	Original	Dock	cwt	qrs	lbs	cwt	qrs	lbs

Rent commences on the date of the Warrant and all other charges from

. . . . . .*Warehouse-Keeper.*

FIG. 28.—DOCK WARRANT

Warehouse Warrant (W/W).—A **Dock Warrant** (D/W) or a **Warehouse-Keeper's Certificate** is a document of title to goods in

[1] See *Principles and Practice of Business*, p. 288.

the custody of a dock company or other bailee, but it is not a negotiable instrument. It usually states that the goods specified therein have been entered in the bailee's books, and that they are deliverable to the person named "or assigns by endorsement" of the warrant (Fig. 28). It also states the date from which rent will be charged.

Once the bailee has issued a warrant, he must not deliver the goods without the signature of the person in whose name the goods were entered. In order that wrong deliveries may be avoided, holders of warrants are required to sign their names in a Signature Book similar to that kept by bankers for the signatures of their customers. If a warrant is lost, the rightful owner may obtain delivery by undertaking to indemnify the bailee, in the same way as the consignee who is not in possession of a bill of lading may have his goods released by indemnifying the shipowner (see p. 211).

Delivery of goods for which a warrant has been issued may be authorized (*a*) if the whole parcel is to be disposed of at once, by endorsement of the warrant, or (*b*) if only a part is to be released, the holder issues a D/O to his customer or agent and returns the warrant to the bailee endorsed: "Deliver against sub-orders." The holder receives the warrant back again endorsed by the bailee with a note of the quantity delivered.

The warrant serves a particularly useful purpose as security for a loan, should the holder wish to raise money on the goods by **Hypothecation**. After making the necessary arrangements with the bank or loan company, the borrower deposits his warrant as security, and as business proceeds, and he is able to repay part of the loan, he may arrange with the lender to have part of the goods released and the warrant endorsed accordingly. Some of the port authorities and warehouse companies are also willing to advance money on hypothecation.

Shipment for Export.—Most of the export business of Great Britain is in the hands of Export Merchants and Commission Agents, who either forward the goods from their own warehouses or send shipping instructions (see p. 325) to their suppliers, and arrange for the goods to be received at the docks. Export firms at the great sea-ports

Telephone No.: AVENUE [illegible] (2 lines). **Advice Note.** Telegraphic Address "MUNDO," LONDON

To **THE WIDE WORLD SHIPPING AND FORWARDING Co., Ltd.,**
FENCHURCH STREET LONDON E.C. *Date* ______________ 19

We have forwarded per ______________ to ______________ the undermentioned
packages for shipment per S.S. ______________ to ______________

Please take out Bills of Lading for us as follows —
Shippers ______________
Consignees full Name and Address ______________
____
Freight to be charged to ______________
Shipping Charges to be charged to ______________

Insurance to be effected for £ ______________ F P A. or £ ______________ all risks.
Insurance Premium to be charged to ______________
Number of Bills of Lading required ______________
Please state if same are required for Banking ______________
Please state if we are to forward one Bill of Lading to Consignees ______________

Marks	No.	Description of Package	CONTENTS	Dimensions	Gross Weight	Nett Weight	Value for Customs (F.O.B.)

State whether goods are produce or manufacture of United Kingdom, or Foreign or Colonial ______________
If Foreign or Colonial, state the Country whence goods were consigned when imported ______________
State final destination of Merchandise, as distinguished from port of discharge of ship ______________

If goods are to be collected by WIDE WORLD SHIPPING & FORWARDING Co., Ltd., please give full address from which they are to be collected when ready

To be collected from ______________
Ready ______________

Signature of Sender ______________
Address ______________

This information is required by H M Customs.

FIG. 29.—ADVICE NOTE TO SHIPPING AGENTS.

are accustomed to dealing with shipping companies, insurance brokers, port authorities and the Custom House, and are consequently better able to do such work than inland manufacturers and merchants.

Many manufacturers, and even merchants—particularly those situated in inland towns—employ **Forwarding and Shipping Agents** to do all the transport work connected with their overseas business. The agent's services are well worth his commission (usually 5% of the total charges) unless the exporter is situated at the port and does so much foreign trade as to justify the employment of a staff of shipping clerks familiar with the somewhat complicated procedure. Instructions are sent to the shipping agents on an **Advice Note**, which is usually printed on a form similar to that shown in Fig. 29.

On receipt of the advice note the shipping agent arranges for the goods to be collected and carted to the quay, or sent by rail if shipment is to be made at a distant port.

When the goods are ready for shipment the agent fills in a shipping note, addressed to the dock or wharf superintendent or to the lighterage company, obtains mate's receipt, prepares bill of lading, receives freight a/c, attends to the insurance of the goods and certificates of origin or consular invoices (see p 277), if such are needed, pays port rates, and fulfils Customs formalities, sending Bs/L and **Insurance Receipt**[1] to the destination indicated by the person employing him.

Preferential Tariffs.—Just as Colonial wines, tea, etc., are imported into the British Isles at a lower rate of duty than foreign produce (in accordance with the principle of **Colonial Preference**), so our colonies allow British goods to enter their ports on a preferential tariff. In order to

[1] Agents shipping goods for several firms under one policy (*e.g.* a floating policy), give each customer a *Receipt*, instead of a separate policy, to show that his consignment is covered.

enable the consignee to claim preference, the shipper must send him a **Declaration of Origin.**

DECLARATION OF ORIGIN

FOR SOUTH AFRICA.

I,..
hereby certify that I am...
of.................................... the suppliers of the articles included in this invoice, and that I am duly authorized to make and sign this certificate on behalf of the said suppliers...........

I have the means of knowing and I do hereby certify that this invoice from the said...
to ....
amounting to..
is true and correct.

I also declare that all the articles included in the said invoice are *bona fide* the growth, produce or manufacture of the United Kingdom.

I also declare that all the articles included in the said invoice are *bona fide* the growth, produce or manufacture of the United Kingdom, and that a substantial portion of the labour of that country has entered into the production of every manufactured article included in the said invoice, to the extent in each article of not less than one-fourth of the value of every such article in its present condition, ready for export to South Africa.

I also declare that the values appearing in the Home Consumption column of this invoice represent at the time of the invoice the open market value of the goods if sold for home consumption in Great Britain, and that the discounts for similar quantities for home consumption in Great Britain

Signed..........................

Dated at .... this.............day of............ 19.

FIG. 30.—DECLARATION OF ORIGIN.

The declaration is usually typewritten on the back of the exporter's invoice form, but printed forms with special invoice ruling may be used, and may be obtained from certain stationers [1] or from the Chambers of Commerce.

[1] *E.g.* Messrs. Waterlow & Sons, Ltd., or Messrs. Eden, Fisher & Co., Ltd.

Declarations of origin are required for South Africa, Canada, Australia, New Zealand, and the West Indies.

As different forms of declaration are used for each Colony, and the wording is varied from time to time, the invoice clerk should make sure he has the right form and the latest wording.

No. 7134.

CERTIFICATE OF ORIGIN.

THE undersigned, **Secretary of the London Chamber of Commerce (Incorporated)**, *hereby verifies the declaration made below by* .. . . *of* .. ..
London in respect of the undermentioned goods destined for ... . *.at* . . ..
(*via*), *as per invoice annexed, that is to say* :

Number of Packages	Marks and Numbers	Gross Weight	Net Weight	Description of the Goods

Signature of Declarer . .. .

are of . ...*origin.*

Secretary.

LONDON,. ....

Number of Certificate... .. ..

FIG 31.—CERTIFICATE OF ORIGIN.

Import duty at port of entry is payable on the net amount of the invoice, which must agree with the amount shown on the

declaration. All cash and other discounts must therefore be deducted from the invoice in the same handwriting or typewriting as the rest.

By reason of Commercial Treaties, British goods may be imported into many foreign countries at reduced rates of duty. The consignee can secure this privilege by showing, according to the regulations in force for the time being: (*a*) a **Certificate of Origin** (Fig. 31), which is signed by the exporter before the Chamber of Commerce, certified by that body, and then taken to the consulate of the importing country to be viséd; or (*b*) a **Consular Invoice** (Fig. 32) written on a special form supplied by the consul, and certified by him. Certificates of origin are required for goods shipped to France, Spain, Italy, Bulgaria, Roumania, and Serbia. Consular invoices must be obtained for all other countries with which treaties are in existence. In the case of certain goods exported to France and Belgium, both a certificate of origin and a consular invoice are required.

Usually four copies of the consular invoice are required. The exporter or his authorized clerk takes them to the consulate, makes a declaration before the consul, and pays the fee. The consul sends one or two certified copies to the port of entry in the importing country, returns one to the exporter for him to send to the customer, and retains one at the consulate.

Great care should be taken to describe the goods correctly, and to conform to the laws of the country of destination. A wrong classification or incorrect description may result in the customer having to pay a higher rate of duty, or even a penalty, for which he would hold the exporter liable. The exporter may make full inquiries beforehand either direct, or through the Department of Overseas Trade.

By the *Most-Favoured-Nation Clause* contained in many foreign commercial treaties, Great Britain is entitled, in the event of tariff concessions being granted to any other

Lugar para la estampilla

_______________ que suscribe__ domiciliado__ en ______
_______________ declara__ que las mercaderías detalladas en el presente certificado, proceden de los puntos expresados en la columna respectiva y que serán embarcadas en el puerto de ______________ con destino al de ______________ (R. O. U) ______________

______________ de ______________ de 19____

FIRMA.

N.° de orden ________

del Arancel ________

Derechos percibidos ________

Visto y anotado en este ______ Consulado ________ de la República Oriental del Uruguay en ______________ á ______ de ______________ de 19____

______ CÓNSUL ______

Declaración para la Estadística Comercial de la República Oriental del Uruguay

Origen de las mercaderías	Marcas	Números	Cantidad de bultos	Clase de bultos	Designación de las mercaderías	Peso bruto ó medida	Peso ó contenido neto	Valor declarado: Moneda local	Valor declarado: equivalente moneda uruguaya
			Total de bultos				Sumas . .		

El cálculo de la equivalencia en moneda uruguaya lo efectuará el Agente Consular al cambio á la par.

Certifico que las mercaderías detalladas en el presente certificado de origen y declaración estadística han sido embarcadas en el ______________ con destino al puerto de ______________ inscriptas en el Manifiesto N.° ______ f.______ correspondiente al Conocimiento N.° ______

N.° del certificado ________ ______________ á ______ de ______________ de 19____

Actuación gratuita.

FIG. 32 —CONSULAR INVOICE (FOR URUGUAY).

country, to be put on at least an equal footing with such favoured country.

EXERCISE 10.

1. What is the difference between free trade and protection ?

2. Explain : Specific duties ; *ad valorem* duties ; Key industries ; Dumping ; Bounties.

3. Describe the functions of the Custom House.

4. Explain briefly the manner in which H.M. Customs enforce fulfilment of the health and Board of Trade regulations, collect payment of Dues, and ensure that no goods arriving from foreign parts escape payment of duty.

5. Define : Captain's Protest ; Entry Outwards ; Clearance Outwards ; Specification ; Pratique.

6. An importer of foreign goods has to "declare" the consignments he receives. What is meant by "declaring" goods, and how is it done ? What is the procedure followed by an importer to obtain possession of dutiable goods ? (S.A.cc.II.)

7. Explain why the importer of free or dutiable goods must enter them on more than one form : and define Official Import and Export List ; Landing Order ; Cart Note ; and Bill of Sight.

8. What purposes are served by the Bonded Warehouses, (*a*) from the point of view of the government, and (*b*) from the point of view of the merchant ? (S.A.cc.II.).

9. What are Excise Duties ? How are they levied, and how do they affect exporters of dutiable goods ? (S.A.tpc.III.)

10. What is Excise Drawback ? What is Customs Drawback ? Why are they allowed to shippers, and how is each obtained ?

11. Show the principal differences between the formalities for exporting dutiable goods (*a*) on drawback, (*b*) *ex* warehouse under bond, (*c*) by transhipment. How do these rules differ from those applying to the exportation of free goods ?

12. Explain what accommodation is provided and what services are rendered by the dock companies, wharf companies, and shipping agents, for importers and exporters of goods ? Explain "warehouse receipt" and "insurance receipt."

13. What are the following, wherein do they differ, and in what connection are they employed : Dock Warrant ; In Bond Delivery Order ; Duty Paid Delivery Order ? (S.A.cc.III.)

14. Compare (*a*) Declaration of Origin, (*b*) Consular Invoice, (*c*) Certificate of Origin; state the purposes of each, and explain how each is prepared.

15. What are the principal results that might be expected from an influential combine in this country in connection with (*a*) Glass manufacture, (*b*) Dyes? (S.A.tpc.II.)

CHAPTER XI.

FOREIGN REMITTANCES.

British and Foreign Moneys.—Money is a commodity, adopted by the community in which it is current for use as a common *medium of exchange*,[1] to be bartered for other commodities or services. In their origin the currencies of civilised countries consist of pieces of metal whose weight and purity are determined by the State. The impression on each coin of the head of the ruling monarch or of some national emblem serves to certify the coin as genuine, legal tender.

The value of all modern currencies was originally based on the weight and fineness of the metal contained in the so-called *Standard Coins* of gold or silver which were made legal tender for the payment of any amount. In addition to these pieces of standard metal the various governments directed the minting of so-called *Token Coins* of inferior metal to represent fractional values, the metallic value of the currency to be maintained by making such coins legal tender for limited amounts only, or by restricting the coinage of the baser metal.[2]

Thus in England silver coins, which contain a quantity of silver and nickel that could be purchased in the market for less

[1] See *Principles and Practice of Business*, p. 261.
[2] See *Ditto*, p. 263.

than their face value, are legal tender for any amount not exceeding 40*s.*, and bronze coins are legal tender for any amount not exceeding 1*s.*

In France gold coins and silver 5-franc pieces are legal tender for any amount, the smaller silver coins for any amount under 50 frs., and bronze or nickel coins for any amount under 5 frs.

The following tables show the comparative values of the gold coins in circulation before the war of 1914-18, in some of the countries having a *Gold Standard.*

Country Standard Gold Coins and Moneys of Account	Weight of Unit in grammes		Purity in Thousandths	Mint Par of Exchange.	
Great Britain *£5, £2, £1 and 10s.* £1 = 20 shillings. 1*s.* = 12 pence)	£1	7·988 [123 2744 grains]	916$\frac{2}{3}$ [$\frac{11}{12}$ths]		
(1869 sovereigns are coined from 40 lbs. Troy of Standard Gold Bullion.)					
Australia		ditto.			£1

British sterling currency is legal tender in Australia, New Zealand, British S and W. Africa, and many other British possessions abroad. Australian coins are of the same weight and purity as those produced at the British Royal Mint, of which the Australian Mints are branches. Canada has a gold standard, the unit of value being the Canadian dollar, which is of equal gold value to that of the United States. All the United States coins and the British sovereign and half-sovereign used also to circulate in Canada. India has a silver currency.

Country. Standard Gold Coins and Moneys of Account	Weight of Unit in grammes		Purity in Thousandths	Mint Par of Exchange.	
Egypt— *100, 50 and 25 piastres.* 1£E = 100 piastres)	1£E	8·500	875	piastres to £1	97½
Turkey— *100 and 50 piastres.* (1 lira Turca = 100 piastres. 1 piastre = 40 paras.)	1£T	7·216	916$\frac{2}{3}$	stg. to 1£T.	18*s*. 0*d*.
France— *100, 50, 20 and 10 francs.* 1 franc = 100 centimes.)	20 f.	6·452	900	francs to £1.	25·2215
	(The value of 3,100 francs is coined from 1 kilogramme of French standard gold.)				

The French system of coinage was fixed in 1795. An International Monetary Conference was held in 1885, at which France, Italy, Switzerland and Greece agreed to link their respective currencies to the French standards of weight, remedy,[1] diameter and values for gold and silver coins. Belgium joined in the same year, completing the group known as the **Latin Union**. The names of the standard gold coins (current in 1914) and moneys of account are :

France :	*100, 50, 20 and 10 Francs.*	(1 franc	= 100 centimes)
Belgium :	*40, 20 and 10 Francs*	(1 ,,	= 100 ,,)
Switzerland :	*20 Francs.*	(1 ,,	= 100 ,,)
Italy :	*100, 50, 20, 10 and 5 Lire.*	(1 lira	= 100 centesimi)
Greece :	*100, 50, 20, 10 and 5 Drachmae.*	(1 drachma	= 100 lepta).

[1] Margin of error in weight or fineness.

The following countries, though not members of the Latin Union, have partially conformed to its system :

Spain :	*20, 10 and 5 Pesetas.*	(1 peseta = 100 céntimos).
Roumania :	*20, 10 and 5 Leis.*	(1 lei = 100 banis).
Serbia :	*20 and 10 dinars.*	(1 dinar = 100 paras).
Bulgaria :	*20 and 10 Levas.*	(1 leva = 100 stotinkis).

The 5-unit silver piece of the Latin Union weighs 25 grammes and is 900 fine. The smaller silver coins (2, 1, 0.50, and 0.20 units) are proportionate in weight, but contain only 835 parts of silver.

Country Standard Gold Coins and Moneys of Account	Weight of Unit in grammes		Purity in Thousandths.	Mint Par of Exchange.	
Germany— *20 and 10 Marks.* (1 mark = 100 pfennige).	Mk. 20	7·965	900	marks to £1.	20·43
Holland— *10 Gulden.* (1 gulden or florin = 100 cents).	10 G.	6·720	900	gulden to £1.	12 107

The silver pieces of 5-francs or its equivalent in the Latin Union, the German silver Thaler, and the Dutch silver Gulden are legal tender in their respective countries for any amount. As, however, the currencies of these countries were based on a *Limping Standard*,[1] the true measure of value was gold.

Austria— *16 and 18 Kronen.* 1 krone = 100 heller.)	Kr. 16	5·422	900	kronen to £1.	24·02

(The value of 3,280 kronen is coined from 1 kilogramme of pure gold.)

[1] See *Principles and Practice of Business*, p. 263.

Country. Standard Gold Coins and Moneys of Account.	Weight of Unit in grammes.		Purity in Thousandths.	Mint Par of Exchange	
Denmark, Norway, Sweden. *Scandinavian Monetary Union. 20 and 10 Kroner.* (1 krone = 100 öre.)	Kr. 20	8·961	900	kroner to £1.	18 16
Portugal— *1 Crown (Coroa).* (1 Coroa = 10 milreis. 1 milreis = 100 reis.)	10 milreis	17 735	$916\frac{2}{3}$	mils. to stg.	$53\frac{1}{4}$*d.*
United States— *Eagle, Double-Eagle, ½-Eagle, ¼-Eagle and Dollar* ($). ($1 = 100 cents.)	1	1 672	900	dollars to £1.	$4{\cdot}86\frac{2}{3}$
	(The Eagle of $10 weighs 258 grains.)				
Japan— *20 and 10 Jen (Yen).* (1 yen = 100 sen.)	20 yen	$16\frac{2}{3}$	900	sterling to yen	24·58*d.*

The currencies of Central America (Costa Rica, Guatemala, Honduras, Mexico, Nicaragua and Salvador) were originally linked to the Mexican dollar, but their exchange values are now quite different. The Mexican dollar is now based on a gold standard, and Mexican silver dollars are the principal medium of exchange in many parts of the Far East.

Gold is the nominal standard of most South American

currencies. The names of the units of Brazil, Argentine, Uruguay, Peru, Ecuador, Venezuela, Columbia and Bolivia, as well as those of Central America, are shown on p. 144.

Gold is in circulation in the United States of America, and in Switzerland, but in other countries which formerly had a gold standard the gold coins have been withdrawn and replaced by paper currency consisting of Notes issued under the authority of the State. These notes have depreciated through over-issue and the consequent inability of the national banks to cash them at their face value for metal. In Switzerland gold was withdrawn from circulation during the war, but was afterwards replaced, and in 1922 circulated freely in the form of 20 fr. and 10 fr. pieces.

Inconvertible paper currency, though nominally it represents a true metallic standard, is in itself no standard at all. Its value as a medium of exchange is therefore more liable to fluctuation than the value of the precious metal it represents. The value depends upon the extent to which the State permits its issue, and the amount of confidence the State enjoys among its own inhabitants and those of foreign countries. Moreover, paper money can only be used in the country of issue, and cannot therefore find such a steady market abroad as gold or silver coins, which have an intrinsic value as metal.

In the East, the currencies of India, China and the Straits Settlements are based on a variety of **Silver Standards**, though in India the standard is nominally gold.

The legal tender of India consists of (1) silver rupees weighing 180 grains and $\frac{11}{12}$ths fine; (2) a convertible paper currency, consisting of *local notes* repayable in silver rupees on presentation at the department of the Indian Treasury within the circle in which the notes were issued, and *universal notes* which may be cashed at any of the branches of the Treasuries; (3) English gold sovereigns and half-sovereigns. The relative value of the rupee to the sovereign for internal circulation was fixed by the Indian government in September 1920 at Rs.10 to £1. British gold coins can be exchanged at the Indian Treasuries for rupees, but so

long as the gold in the sovereign is worth more than the silver contained in ten rupees, gold cannot be obtained in exchange for rupees.

The Indian Moneys of Account are the **Lac**, **Rupee**, **Anna**, and **Pie**. 1 lac = 100,000 rupees, written Rs.1,00,000; 1 rupee = 16 annas; 1 anna = 12 pice or pies.

The silver rupee serves in India as a standard of weight, known as the "tola."

China has no fixed currency system. Any silver coins, or silver in any merchantable form, can be utilized as money, and in the Treaty ports we find the metal circulating chiefly in Chinese **Taels**, Mexican, British, Marie Theresa, and Chinese dollars, rupees, and yen. In addition to these coins, silver bullion circulates in the form of small shoe-shaped ingots called **sycee**, or "sai su," which weigh about 60 oz. Troy. An essential difference between the sycee and the silver coins is that the fineness of the sycee is not uniform. Before they are accepted in payment they have to be certified by an assayer, who is appointed by the leading banking and merchant houses. They are the basis of the Chinese currency because, whereas merchants remit money to China through the banks, the banks put their agents in funds there, not only by sending them trade bills but also—when the price of silver makes it profitable—by sending them shipments of silver bullion. Now, silver bars can be converted into sycee, but foreign silver coins cannot be manufactured in China.

The Chinese "tael," like the Indian "tola," is a standard of weight, but its value is not uniform throughout the empire. The weight taels of Canton, Haikwan, Hankow, Peking, and the Tsaoping tael current in Shanghai, are all different, and the last-mentioned is not the weight of the Shanghai currency tael.

Foreign exchange rates on Shanghai are quoted in *pence per currency tael*. Hong Kong quotes *pence per Hong Kong dollar*, and remittances are payable in the notes of the three principal British banks in that port.

Foreign Exchange is the term used to denote the business of exchanging the currency of one country for that of another.

The simplest form of foreign exchange business is that undertaken by Money Changers or *Bureaux de Change*, and consists of buying and selling foreign coins and legal tender notes for the convenience of travellers. But persons who wish to remit money abroad by post or telegraph go to the Post Office or, for larger sums than say £10 or so, to a bank which does foreign business.

The Post Office.—Foreign remittances may be made through the Post Office by means of

(*a*) Reply Coupon;
(*b*) Money Order; or
(*c*) Telegraphic Money Order.

For particulars consult the *Post Office Guide*.

The Exchange Banks.—Foreign trade is financed for the most part through the Exchange banks, which undertake (*a*) to remit money to persons abroad, and (*b*) to collect money from persons abroad. The customer pays the banker on this side with English sterling currency, or receives sterling from him, as the case may be. The payment or collection of foreign currency on the other side is done by the banker's foreign agent or correspondent.

The methods by which Importers may pay their foreign suppliers through the banks are known as:

1. Bank Draft;
2. Mail Transfer;
3. Telegraphic Transfer;
4. Open Credit; and
5. Documentary Credit.

Exporters may receive payment from their customers by any of the above means, or may draw an

6. Open Draft on Customer; or a
7. Documentary Draft on Customer.

The exchange banks also have a department for money changing, but dealings in foreign coins and bank notes form a relatively small part of their activities. For the greater convenience of travellers, or any person wishing to remit money to places abroad, they issue *Cheques* drawn on foreign banks

or arrange remittances in the form of *Transfers* or *Letters of Credit.*

All the large London banks do foreign exchange business, dealing directly with the centres in which they have their own agencies or correspondents, and indirectly through foreign banks with other centres. Most exchange business is undertaken, however, by other banks having offices in London, but not belonging to the home group. These may be classed in three groups, viz. the Colonial banks, the British banks working abroad, and the Foreign banks. The names of the principal banks in each group are given on pp. 122 to 124.

Since the exchange banks make it their business to sell drafts or credits payable by their foreign agents they become indebted to those agents. On the other hand, the exchange banks buy trade bills drawn on foreign traders and send them to their agents to collect; and the agents in their turn send back bills for collection in London (or elsewhere in the United Kingdom), and issue drafts and remittances payable in London. Each side debits or credits the other with the amounts collected or received by him, as follows:

FOREIGN AGENT debits LONDON BANKER	*for*	Drafts and Transfers issued by L.B. and payable by F.A.; and Bills collected by L.B. for a/c of F.A.
LONDON BANKER debits FOREIGN AGENT	*for*	Drafts and Transfers issued by F.A. and payable by L.B.; Bills collected by F.A. for a/c of L.B.

Rates of Exchange.—Since money is a commodity, it is not extraordinary that the currency of one country is capable of being bought and sold with the currency of another country. The price at which the **cambist** or foreign exchange dealer is willing to buy or sell foreign currency fluctuates, as does the price of any other commodity, according to the relative demands of buyers and sellers. The

dealer is not concerned with inherent values. He makes his profit by selling at one price and buying at a lower price.

The rates at which foreign exchange transactions have taken place are reported daily in the newspapers (see p. 144).

From these tables it will be noticed that most London rates are given as the price in foreign currency of £1 sterling. Exceptions to this custom may be found in the rates for Brazil, Argentine, Uruguay, Bolivia, Mexico, Portugal, India, China, Japan and the Straits Settlements, which quote pence per foreign unit. Peru rates are quoted as a percentage discount or premium below or above £1 sterling for £1 Peruvian. British Colonial rates are also quoted as a percentage discount or premium.

Thus a rise in the Paris rate means that French francs are *cheaper*, but a rise in the Lisbon or Peru rate indicates that milreis or Peruvian pounds are *dearer*.

In Continental countries the rates of exchange on other Continental centres are quoted as a price per 100 units of the other currency, or per £1 in the case of rates on London. Thus Paris quotes German marks in francs and centimes per 100 marks; but Berlin quotes French francs in marks and pfennige per 100 frs.

The column headed "Mint Par of Exchange" (see p. 144) shows the rates at which the pure gold represented by one side of the quotation would be equal in weight to the pure gold represented by the other side. Owing to the withdrawal of gold from circulation the present day rates have all deviated considerably from gold par.

Letters of Credit.—By means of a letter of credit (L/C) one party (the issuer) authorizes a second party (the payer, or addressee), to pay money to a third party (the holder, or beneficiary), in accordance with the terms stated therein. They are sometimes issued by trading firms, addressed to their agents or customers, but most Ls/C are issued by bankers.

When a L/C is issued to a traveller the holder is required to sign his name on it for purposes of comparison at

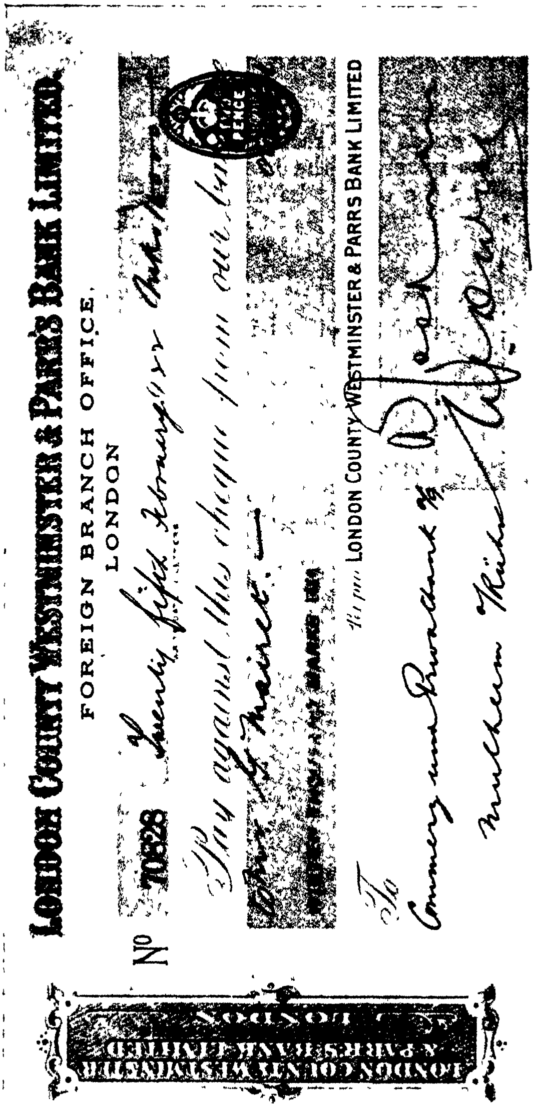

FIG. 33.—FOREIGN CHEQUE.

destination, and on presenting the letter at the paying bank he is asked to sign a receipt, which serves as a voucher, with which the paying bank charges the issuing bank for the amount paid.

In some cases—particularly where the L/C authorizes payment for goods—the receipt takes the form of a draft drawn on the issuer by the beneficiary. These drafts are disposed of by the paying banker to other bankers, and in this way they eventually find their way back to the issuing banker for collection, and have to be paid by him.

Circular Notes are letters of credit addressed to a number of bankers resident in different centres. The letter states the names of the banks to whom it is addressed, and the limit of credit authorized. Each payment as it is made is endorsed on the letter to prevent the holder from receiving any amount beyond the sum authorized.

Bank Drafts.—The simplest way of sending money abroad is to purchase a Cheque (Fig. 33) at one of the

CUSTOMER'S REQUEST TO BANK FOR FOREIGN CHEQUE.

LONDON,. .... .19...
E C 3

FOREIGN CHEQUES.

Please prepare the following Drafts :

Place of Payment	In whose favour	Amounts in Foreign Money		Rate	Sterling. £	s	d

Required by (Name)........... ....

(Address)........................Signed.................

FIG. 34.—CUSTOMER'S REQUEST TO BANK FOR FOREIGN CHEQUE.

Exchange Banks. The remitter states his requirements on a form (Fig. 34), and may expect to receive the draft the same day, if in the city of London, or in two days if the order is given outside the metropolitan area.

No commission is charged for foreign cheques, as the bank's profit is included in the rate of exchange.

Open Credit.—An increasing number of foreign remittances are now made *without the use of bills of exchange*, by means of Credits or "Transfers." The transfer is an advice sent by one bank to another to pay a certain sum of money to a specified person. If the advice is sent by post, the remittance is called a **Mail Transfer**; if by cable, a **Telegraphic Transfer** (T. T.). The following is a form of request to be filled in by the person remitting by mail transfer:

CUSTOMER'S REQUEST TO BANK FOR MAIL TRANSFER.

(617) Amount in Foreign Money: ... . at rate . . . £ . : plus commission . : Total £ : :	FOREIGN CREDITS AND PAYMENTS. *London,* .... 19. . *Please receive* £.... .... ., *the equivalent of which amount, as per particulars at side, instruct your Agency or Correspondents at* .. .. (*Strike out lines not wanted.*) (1) To place to the credit of.. . ... (2) To hold at the disposal of.... .... (3) To pay to.......... .... at following address: . ... *This amount is paid in by* .... (*Address*) .... *And by order of* .... Signature.... .. ..

FIG. 35.—CUSTOMER'S REQUEST TO BANK FOR MAIL TRANSFER.

Foreign cheques, like transfers, are advised from the issuing bank to the paying bank, and for both cheques and transfers the remitter receives a receipt or acknowledgment of issue. One method is therefore as safe as the other, but the cheque is more easily transferred.

Telegraphic Transfers cost more than mail transfers, to the extent that the remitter has to pay the cost of the telegram. The remitter has to agree on the form of request (Fig. 36) that the message is to be sent at his, not the bank's risk. On the opposite page is a typical form of request for telegraphic transfer.

Documentary Credits.—Importers who wish to pay their suppliers immediately after, but not before dispatch of each consignment, may arrange a bank credit at port of shipment, on the terms that the exporter is to receive his money on furnishing the paying bank with proof that the relative goods have been actually put on board. In Continental countries, where goods are exported over land frontiers, evidence of dispatch is provided in Railway or Barge Receipts, or Postal Receipts. Exporters by sea, for whom payment has been arranged "against documents," are required by the paying bank to hand over in exchange for payment the **Shipping Documents**, consisting of a Bill of Lading and an Insurance Policy or, if the goods are shipped under floating policy, an Insurance Receipt. An invoice and, where necessary, certificate of origin are also usually included.

Export Credits.—An exporter receiving a first order from a foreign firm, of whose financial status he has no certain knowledge, could not be expected to send away valuable goods on credit. On the other hand, by demanding a remittance by cheque or transfer before delivery, he would prejudice his chance of obtaining new business; but the foreign customer might be prepared to entrust the matter of payment to his banker on the terms "**Cash against Documents**" at port of shipment.

CUSTOMER'S REQUEST TO BANK FOR CABLE TRANSFER.

TO THE..............................BANK,
LONDON.

Please receive £......................., the equivalent of which amount, under / without deduction of your expenses, instruct by wire your Agency / Correspondents at...... ....to :

(*Strike out lines not wanted.*)	Place to the credit of Hold at the disposal of Advise and pay to.... .

I / We request you to telegraph to the above effect, either literally or in cipher, and I / we hereby guarantee you against all and every claim which may be made against you in respect of the above message, and agree to hold you harmless and to release you from all responsibility for loss or damage which may arise from your Agents / Correspondents failing properly to identify the person / persons named in the above message, and from any irregularity, incorrectness and misinterpretation or delay in the transmission of, or in acting upon the said message, it being my / our intention that the transmission of the message and payment by you of the above amount should be entirely at my / our risk and cost.

Signature..............................

Name ....
Address......... ....

Date.

Amount in Foreign Money -
at £
Commission -
Telegram -

FIG. 36.—CUSTOMER'S REQUEST TO BANK FOR CABLE TRANSFER.

EXAMPLE.—Messrs. A. at Milan buy goods from Mr. B. in London, who has quoted "Cash against documents in London." Messrs. A. arrange with their own bank at Milan to instruct an agent in London—many foreign banks have their own offices in the City—to open documentary credit in favour of Mr. B. for say £500, payment to be made against presentation of invoices, bills of lading, insurance policy and certificate of origin for (say) x bales Sponge Clippings.

When the goods have been put on board the steamer, Mr. B. takes the documents, together with a draft drawn in accordance with the terms of the credit, to the paying bank. The draft may be drawn on Messrs. A., in which case the bank will pay it after seeing that the amount and the documents are all in order. But usually the exporter draws on the paying bank, obtains that bank's acceptance, and passes the bill through his own current account. If the L/C authorizes B. to draw *at usance,* the bank's acceptance can be discounted at the lower rate charged for bank bills.

If such terms can be agreed to, the exporter need not move the goods from his warehouse until he receives the L/C or advice from the bank that the money is there; and the foreign customer is happy in the thought that no money will be paid until the goods have been dispatched.

Import Credits.—Produce importers arrange documentary credits abroad, not because they cannot be trusted with goods on credit but in order to render financial assistance to shippers on the other side.

An illustration of the method may be seen from the following letters, which are typical of those used for credits established by Liverpool importers of cotton from the United States, or London importers of meat from the River Plate ports.

(1)

GENTLEMEN,

I/We request you to establish a Credit with .... to the extent of £................ (.. sterling) authorizing the negotiation of the Draft or Drafts, without recourse on drawers, of.. on yourselves at....................after sight, payable in London,

and in consideration of your so doing $\frac{I}{we}$ engage to provide you with funds to meet such Drafts three days before maturity.

The Drafts are to be secured by the due endorsement and delivery as collateral security to the Bank of full set of clean blank endorsed Bills of Lading for..

but the Bank is not responsible for the genuineness or correctness of the Bills of Lading or any endorsement thereon, nor in the event of any misrepresentation as to the quantity, quality, or value of any goods comprised therein, nor for the shippers' charges on any such goods. The Insurance thereon, with............per cent added.............................., is to be effected by..

....

or by the Bank in case such insurance should not be arranged to its satisfaction, the cost of which insurance $\frac{I}{we}$ engage to pay; and the amount insured is to be held as available to the Bank until payment of the Draft or Drafts.

In the event of $\frac{my}{our}$ failing to provide for such Draft or Drafts, and of the Bank selling the relative goods, which it is hereby fully authorized to do, $\frac{I}{we}$ undertake to pay on demand the amount of any deficiency on such sale, together with all usual commission and charges and expenses whether incidental thereto or otherwise. It is understood that on due payment of any Drafts, with the cost of insurance and any other expenses incurred by the Bank in connection with the shipment concerned, the relative documents are to be given up to $\frac{me}{us}$, provided all other Drafts due, cost of insurance and expenses shall have been paid.

It is understood that the negotiation of the Draft or Drafts above referred to shall be optional on the part of you or your agent.

This Credit is to cease to be available on the..................... 19.......

Yours faithfully,

.... 6d. STAMP

The first is a letter from the Importer, addressed to his bank in Liverpool or London, as the case may be, asking for credit to be established, and guaranteeing payment.

EXAMPLE.—Messrs. A. at Milan buy goods from Mr. B. in London, who has quoted "Cash against documents in London." Messrs. A. arrange with their own bank at Milan to instruct an agent in London—many foreign banks have their own offices in the City—to open documentary credit in favour of Mr. B. for say £500, payment to be made against presentation of invoices, bills of lading, insurance policy and certificate of origin for (say) x bales Sponge Clippings.

When the goods have been put on board the steamer, Mr. B. takes the documents, together with a draft drawn in accordance with the terms of the credit, to the paying bank. The draft may be drawn on Messrs. A., in which case the bank will pay it after seeing that the amount and the documents are all in order. But usually the exporter draws on the paying bank, obtains that bank's acceptance, and passes the bill through his own current account. If the L/C authorizes B. to draw *at usance*, the bank's acceptance can be discounted at the lower rate charged for bank bills.

If such terms can be agreed to, the exporter need not move the goods from his warehouse until he receives the L/C or advice from the bank that the money is there; and the foreign customer is happy in the thought that no money will be paid until the goods have been dispatched.

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An illustration of the method may be seen from the following letters, which are typical of those used for credits established by Liverpool importers of cotton from the United States, or London importers of meat from the River Plate ports.

(1)

GENTLEMEN,

I/We request you to establish a Credit with ....to the extent of £................ (.. sterling) authorizing the negotiation of the Draft or Drafts, without recourse on drawers, of.. on yourselves at...................after sight, payable in London,

and in consideration of your so doing $\frac{\text{I}}{\text{we}}$ engage to provide you with funds to meet such Drafts three days before maturity.

The Drafts are to be secured by the due endorsement and delivery as collateral security to the Bank of full set of clean blank endorsed Bills of Lading for............ .. ..

but the Bank is not responsible for the genuineness or correctness of the Bills of Lading or any endorsement thereon, nor in the event of any misrepresentation as to the quantity, quality, or value of any goods comprised therein, nor for the shippers' charges on any such goods. The Insurance thereon, with .... per cent added . .. ., is to be effected by............ ... .
....
or by the Bank in case such insurance should not be arranged to its satisfaction, the cost of which insurance $\frac{\text{I}}{\text{we}}$ engage to pay ; and the amount insured is to be held as available to the Bank until payment of the Draft or Drafts.

In the event of $\frac{\text{my}}{\text{our}}$ failing to provide for such Draft or Drafts, and of the Bank selling the relative goods, which it is hereby fully authorized to do, $\frac{\text{I}}{\text{we}}$ undertake to pay on demand the amount of any deficiency on such sale, together with all usual commission and charges and expenses whether incidental thereto or otherwise. It is understood that on due payment of any Drafts, with the cost of insurance and any other expenses incurred by the Bank in connection with the shipment concerned, the relative documents are to be given up to $\frac{\text{me}}{\text{us}}$, provided all other Drafts due, cost of insurance and expenses shall have been paid.

It is understood that the negotiation of the Draft or Drafts above referred to shall be optional on the part of you or your agent.

This Credit is to cease to be available on the .... 19.......

Yours faithfully,

6d
STAMP

....

The first is a letter from the Importer, addressed to his bank in Liverpool or London, as the case may be, asking for credit to be established, and guaranteeing payment.

(2)

The Manager,

....

....

No..................

DEAR SIR,

We shall feel obliged if you will kindly establish a Credit with...
....
to the extent of...
in favour of.......... ....

Payment is to be made against full set of clean blank endorsed bills of lading for...
....
....

The insurance..is to be effected by .. . .and the policy must be attached to the drafts.

Please debit our account with....................................
for your disbursements under this Credit, and forward the documents direct to us.

Please note that this Credit is opened on behalf of our Client...
and unless previously cancelled is to be available until ....19..... .

Thanking you in anticipation,

Yours faithfully,

The second example is the advice sent by the English bank to its agent or correspondent at, say, Galveston or Buenos Aires.

As each consignment is made the Exporter draws a bill on the English bank, and takes the draft, together with invoice and shipping documents, to the bank at port of shipment. It will be noticed from the above letters that the exporters are to receive the full amount of their drafts, and that recourse will not be had against them if the conditions of the credit are not fulfilled. The foreign bank sends the documents straight to the English bank, but disposes of the draft, after endorsement, through other banks or bill brokers, and the draft eventually finds its way to England, where it will be presented when due on the importer's bank. The importer has undertaken, however, to provide his bank three days before maturity with funds to meet the draft.

The English bank holds the documents as *collateral security*, and is authorized, under the terms of the guarantee (letter No. 1) to sell the goods in the event of the importer failing to provide for this or any other draft issued under the credit.

All expenses, whether incurred abroad or here, are debited to the importers.

Documentary Draft on Customers.—Exporters who are able to allow their customers more liberal terms than "Cash against documents on shipment" draw on them what is known as a Documentary Draft, which is collected through a bank having a branch or agent in the country of destination. The draft is usually drawn in favour of the collecting bank. Its tenor, and the terms on which the importer is allowed to take possession of the documents, depend upon the arrangements he has made with the exporter, and to a large extent upon the customs of the importing country.

D/P Terms.—The safest way for the exporter is to offer *Documents against Payment* (D/P), which means that the bank is instructed not to allow the shipping documents out of its possession until the draft has been paid.

For purposes of illustration we will take the case of a London importer, who receives advice from a Colonial bank in the city that it holds a documentary draft drawn on him. Shortly afterwards the bank's messenger or "walks clerk" calls at the importer's office, where he produces the draft from his wallet, saying that he has a draft for acceptance, and delivers it to a responsible employee.

If the draft is *at usance*—say 60 days after sight—the messenger leaves the draft, and calls for the acceptance next day. In some offices there is a slot in the counter marked "Bills for Acceptance," into which the messenger only needs to drop the draft and go away. When the bill falls due it is presented for payment at the bank on which the acceptor has domiciled[1] it, in precisely the same way as cheques are presented, and after it has been

[1] See *Principles and Practice of Business*, p. 215.

collected the Colonial bank hands the documents to the importers.

If the importer—*e.g.* a provincial firm—had no a/c in London he would domicile his acceptance at his local bank's head office or London agent, who would then require advice from the acceptor's bank before paying.

If the draft is made payable **at sight** the messenger who presents it at the importer's office waits for it to be accepted. The cashier may prefer, if the amount is small, to pay in cash—not by cheque—at once. Sight drafts are accepted to enable the collecting banker to present them through the bank in the same way as cheques or other bills.

In many cases the drawer instructs the presenting bank that the drawee is to have the option of accepting the draft at any time up to arrival of the steamer. This method will become clearer after perusal of the following letters. No. 1 is an advice from Exporter to Customer in Sydney; No. 2 an advice from Exporter to his Bank in London.

Messrs. W. Jenkins & Son,
Sydney.

London, *16th Jan.*, 19...

DEAR SIRS,

Herewith we beg to hand you invoices *Nos. 210, 211, 212, and 213* for *£205 : 11 : 2* with shipping instructions attached thereto.

We beg to advise having this day drawn upon you for the amount, viz.: *Two hundred and five pounds 11/2*, documents being attached to the draft to be surrendered on due *payment.*

We have instructed our Bankers to present the draft and documents to you through: *the usual way*, and have advised them that you have the option of accepting same until *arrival of steamer.*

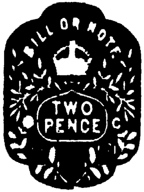
We recommend our draft to your good protection and beg to assure you of our best attention at all times.

Very truly yours,

SMITH & BROWN.

ENCLOSURES:
Invoice Nos. 210-3.
Shipping Instructions.

The words "documents to be surrendered," etc., are usually omitted from the draft itself, though included in the advices.



No. 34. £205:11:2. London, 16th January, 1922

At sight pay to Barclays Bank Limited ——

the sum of Two hundred and five pounds eleven shillings

and twopence ——

for value as per Account. Documents attached hereto to be surrendered on due payment. Drawee to have option on accepting draft at any time up to arrival of steamer.

To Messrs. W. Jenkins & Son.
Sydney
Australia

Smith & Brown

FIG. 37.—SIGHT DRAFT (WITH ACCEPTANCE CLAUSE).

(2)

London, *16th Jan.*, 19...

The Manager,
Barclays Bank, Limited,
Foreign Department,
Fenchurch Street, E.C. 3.

DEAR SIR,

Attached herewith please find draft
at *sight*
on *Messrs. W. Jenkins & Son, Australia,*
for *£205 : 11 : 2,*
with shipping documents attached thereto to be surrendered on due *payment.*

Kindly present draft and documents to our customer through *the usual way*
our customer having the option of accepting same at any date until *arrival of steamer. If draft refused, do not protest, but hand same to Messrs. H. A. Plender & Company, Sydney.*

Please collect same for our account, proceeds to be sent to London by *Mail, advising us in due course of the sterling amount.*

Yours faithfully,

SMITH & BROWN.

ENCLOSURES :
Draft at *sight.*
Invoices *Nos. 210, 211, 212, and 213.*
B/Lading.
Shipping Instructions.
Insurance Certificate.
Statement of Account.

If a d/p draft is not payable until some time after sight, it is first presented for acceptance, and when the vessel arrives the bank obtains possession of the goods and has them stored in a warehouse. In some important towns in the East bankers have their own warehouses, known as "Go-downs," but otherwise the goods are stored in a public warehouse, if such exists, in the name of the bank, which holds the receipt or warrant.

At any time before maturity the importers may **retire** the bill, *i.e.* pay the amount under discount, and obtain delivery of the goods. Without payment of the full amount of the d/p draft the collecting banker is not authorized to let go the documents; but on their own responsibility the banks sometimes allow delivery, or part delivery, before maturity, in which case they require the importer to sign a **Trust Receipt**. The object of such an arrangement

may be to allow the importer to sell the goods before he pays for them, or it may be that there does not happen to be a public warehouse in the vicinity, and that there is no way open to the banker but to allow the importers to store the goods in his own warehouse, and trust him to meet his obligations.

D/A Terms.—The exporter must have a certain amount of confidence in his customer to offer him *Documents against Acceptance* (D/A). As the words state, the importer is allowed to take possession of the goods in return for acceptance of the draft.

Open Draft on Customer.—A draft to which no documents are attached is called an "open draft." Naturally, for foreign trade such drafts offer no security to the exporter except the importer's promise to accept or pay them, if he has promised to do so. Nevertheless, international trade is financed very largely by unsecured trade bills, and it must not be imagined, from what has been said about withholding documents to secure payment, that export merchants live continually in the unhappy state of mistrusting their friends. It will be seen in the next chapter than an important part of the merchant's business is to know his customers and their ways.

Advances against Documents.—It is in the nature of business enterprise that those engaged in it seek to handle the largest possible turnover that their resources will allow. Yet the longer the exporter has to wait to recover the cost of each shipment the less shipments he will be able to make in the year; and when supplying goods to (say) Australia or the East against draft at sixty or ninety days after sight, some four or five months must elapse before advice of payment is received in London.

The banks are willing to discount or advance money on the security of *bona fide* trade drafts, but they usually require collateral security in the shape of shipping documents.

Letter of Hypothecation.—As mere possession of the shipping documents would not entitle the bank to sell the goods to secure his advances, so the bank requires the exporter to sign a Letter of Hypothecation which expressly authorizes the bank to have the goods sold at the exporter's risk and expense if the bill should suffer dishonour. The Bs/L must be endorsed in blank, to enable the bank to take possession of the goods without the consignees' signature, if payment should be refused.

LETTER OF HYPOTHECATION.

London, *14th October*, 1922.

To the Directors of
The Anonymous Banking Co., Ltd.,
Singapore.

GENTLEMEN,

We have negotiated through your London Office *our* Bill *at 90 days after sight* drawn *in your favour on our customers, Messrs. A. Hadji, Johnson & Co., at Singapore* for *£115 : 14 : 8* being the value of *2 zinc-lined cases Mixed Tweed Suitings* as per Invoice attached hereto.

As security we have delivered with the said Bill, shipping documents including a complete set of clean blank endorsed Bills of Lading, as follows:

Bills of Lading for *2C/s Suitings* marked | J H |
per s.s. *Barotse*. From *London* To *Singapore*.
Freight *has been paid by us*.
Marine Insurance Policy *F.P.A.* for *£125*
effected with *British Eastern Insurance*
payable in *Singapore*.

These documents are to be given up on payment of the Bill.

If the said Bill should suffer dishonour, we hereby authorize you to sell the relative goods for our account and at our risk, and in the event of the proceeds of such sale not amounting to so much as the amount of the said Bill, we undertake to reimburse you to the extent of any deficiency, together with all the usual commission, charges and all incidental expenses.

We are, Gentlemen,
Yours faithfully,
JOHN HANDS & CO.

Margin.—In the event of the bill being dishonoured the goods may not realize the full amount of the draft.

It is, therefore, usually agreed that the bank shall advance say 75% of the amount of each bill, and give the exporter a **Marginal Deposit Receipt** for the balance of, say, 25%. When advice is received in London that the bill has been paid, the exporter receives the amount of the bill, after deduction of the amount advanced, interest thereon and expenses. The agreement may give the bank a *general lien* (p. 168) on the margin as security for the payment of any "bill or bills running," that is to say, the margin of one bill may be withheld to secure the amount advanced on another which may suffer dishonour.

Interest Bills.—Most trade bills on India and China, and many of those drawn on Japan, contain an Interest Clause (Fig. 38). The rate of interest, which is payable by the drawee, varies according to the state of the discount market, from about 6 to 8 *per cent. per annum.*

If the exporter discounts the bill, the interest goes to the Eastern bank which has purchased it and presents it for payment.

INTEREST BILL.

2/ BILL STAMP

No. *279* *£198 : 10s. : 0d.*

London, *10th Feb.*, 19*23*.

At *thirty* days after sight pay this FIRST of Exchange (SECOND unpaid) to the order of the *Mercantile Bank of India, Limited,* the sum of *One hundred and thirty-five pounds five shillings* Sterling, payable at the *said Bank's* current drawing rate for demand Drafts on London, with interest at *six* per cent. per annum added thereto from date hereof to approximate due date of arrival of the remittance in London, value received.

Invoices per s.s. *Mandasor.*

To Messrs. *A. Mohamad Essam & Bros.,*
Colombo.

F. Page & Co.

Fig. 38.—Interest Bill.

Where the exporter, instead of discounting the bill, entrusts it to the bank for collection, he is of course entitled to the full proceeds, less expenses. If he is able to wait for the money until advice of payment is received in London the bill may be a profitable form of investment for him.

Usually the London banker only advances part of the amount drawn for in the bill, but its office at destination collects interest on the full face value. The exporter is therefore entitled to a share in such interest, *i.e* to the interest on the margin. On arrival of the remittance in London the exporter receives the margin, *plus* marginal interest, *minus* expenses if any.

It is not customary to draw interest bills except for goods shipped to the East. Exporters to other countries who wish to recover bank discount or interest from their customers, either (*a*) include such charges in the amount drawn for,[1] or (*b*) keep an Account Current (p. 309) with their customers into which the charges may be entered as agreed and drawn for in subsequent bills.

Bankers' Acceptances.—Instead of raising money on documentary bills, exporters sometimes find it more economical to arrange with a bank or Accepting House (p. 125), to allow them to draw for part of the value of each shipment, obtain the bank's or accepting house's acceptance,* and discount the bill at another bank or discount house. Naturally the drawer has to agree to provide funds before the bill falls due. Moreover, the acceptance is usually given by the bank which negotiates the documentary draft, and as collateral security for the exporter's undertaking to provide for the acceptance, the bank would then hold a letter of hypothecation on the documents.

The banks make a charge for acceptance, calculated at a rate *per cent.*—say $1\frac{1}{2}\%$—*per annum*, but bills bearing a

[1] For method of calculating amount to include discount see *Principles and Practice of Business*, p. 230.

banker's signature are discounted at the rates quoted (see p. 130), for bank bills, which is lower than the rate quoted for trade bills. The advantage depends upon the state of the discount market. If the rate for interest bills is 7%, and the market rate of discount for bank bills is $5\frac{1}{2}$%, the accepting bank's charge of $1\frac{1}{2}$% *p.a.* for accepting would equalize the two methods. But it may happen that the discount rate for first-class bank paper is lower by more than $1\frac{1}{2}$% than the rate charged for advances against trade bills.

Bills in a Set.—It will be noticed that the bills shown on pp. 305 and 354 contain the words: "First of Exchange," "Second unpaid," etc. It is customary for foreign bills to be drawn in two or three parts in order to avoid delay through loss in transmission. The second copy, called appropriately the *Secunda Via*, is sent by a different route or later mail. Each part must be numbered, and bear a reference to the other parts. The usual wording is:

1st Part.—. . . *sight of this First of Exchange (Second and Third of same tenor and date being unpaid).*
2nd Part.—. . . *sight of this Second of Exchange (First and Third of same tenor and date being unpaid).*
3rd Part.—. . . *sight of this Third of Exchange (First and Second of same tenor and date being unpaid).*

All the parts together then constitute one bill.

The acceptance may be written on any part, but it must be written on one part only, and the acceptor should require the part bearing his acceptance to be delivered up to him. If he accepts more than one part, and such accepted parts get into the hands of different holders in due course, he is liable on every such part as if it were a separate bill.

Where the holder of a set indorses two or more parts to different persons, he is liable on every such part, and every indorser is liable on the part he has himself indorsed as if it were a separate bill.

Exchange and Other Clauses.—In order to determine the amount which the drawee of a bill is expected to pay, it may be necessary to refer to a special clause on the face of

the bill. There may be (1) an *Interest Clause*, as shown on p. 305; or the words (2) *With Bank Charges added*, (3) *With Exchange and Charges for Collection*, (4) *At the rate of exchange as per first London endorsement*, or (5) *At the . . . Bank's drawing rate for demand drafts on London*.

A bill may be expressed in sterling, or in the currency of the country in which it is payable. In case (4) the bill would be expressed in sterling, and the rate of exchange endorsed thereon by the London banker at the time the bill was negotiated to him. This is what was done in the case of the goods invoiced on p. 326. Clauses (3) and (5) mean that the banker at destination fixes the rate on presenting the bill.

Sans Protêt.—To avoid the cost and annoyance connected with Protesting [1] it is a common practice to give the collecting banker the name of an agent or correspondent in the vicinity (see letter No. 2 on p. 302), who will take up the bill and documents *sans protêt*, *i.e.* *without protest*, if acceptance or payment is refused. The banker must be clearly told *not to protest*; otherwise he will have the bill protested and apply to the Case of Need [2] afterwards for Acceptance or Payment **supra Protest.**

Payment through Shipping Agent.—Both exporters and importers occasionally arrange for payment to be made by the Forwarding and Shipping Agents who undertake the transport of their goods. The services of such an agent or transport company extend to collecting, packing, forwarding, and warehousing the goods, in addition to arranging payment against delivery from the seller or to the buyer, or in any other way most acceptable to both parties.

Private Negotiation of Bills.—It has been explained [3] that the original and main object of the bill of exchange is to serve as a substitute for currency, by the transference of debt from one person to another. Thus A may pay B with a draft drawn on C. There are three parties to almost

[1] See *Principles and Practice of Business*, p. 230.
[2] See *Ditto*, p. 231. [3] See *Ditto*, p. 239.

every foreign bill: (*a*) the drawer; (*b*) the drawee, who becomes the acceptor; and (*c*) the payee, or—if the bill is drawn "to Order" and endorsed by the drawer—the endorsee or holder by delivery. One of these parties usually has no connection with the transaction which gave rise to the bill as between original debtor and creditor, and is usually a bank.

Thus A may pay B with a bank draft drawn on the C bank, or B may collect payment from A by drawing on him and negotiating the bill through the C bank for collection.

The private negotiation of bills or promissory notes, *i.e.* their transference to a third party not being a bank, is only resorted to (*a*) where banking facilities are lacking, or (*b*) to reduce commission, charges, and loss on exchange which result from abnormal conditions,—*e.g* a wildly fluctuating exchange market—which induces the banks to increase the difference between their buying and selling rates.

Account Current.—An Account Current (A/C) is nothing more than a current or running account with the addition of columns for the calculation of interest on each item as agreed between the parties concerned.

EXAMPLE.—The simplest example is the Banker's Deposit A/c. The banker allows his customer interest on the deposit for the number of days it remains. If the amount is increased, or part of it withdrawn, the balance is ascertained and interest calculated henceforth on that figure.

In working interest bankers do not count sums of less than ten shillings, but amounts of over ten shillings are counted as one pound.

Accounts current are used largely by merchants engaged in overseas business—particularly that carried on with agents—where the seller does not draw for the value of each consignment with interest.

EXAMPLE.—Messrs. Baird & Co., of 14 King Street, Liverpool, export machinery and distillery plant to their agents the West Indian Equipment Syndicate, at Kingston, Jamaica. Invoices are charged net with interest as from date of shipment at 6% *p.a.*, and payments credited at 5% *p.a.* from date realizable.

Method 1.—By the use of Interest Tables.

ACCOUNT CURRENT.

WEST INDIAN EQUIPMENT SYNDICATE, LTD.,
KINGSTON, JAMAICA.

Dr. *Cr*

Date. 19		Interest £	s	d	Item £	s	d	Date 19		Interest £	s	d	Item £	s	d.
May 21	To Balance	1	5	–	83	10	–	Apr 25	By Transfer		9	1	50	–	–
Apr 5	,, Goods		12	9	45	–	–	,, 30	,, Credit Note		1	5	8	10	–
May 24	,, do		13	9	112	13	4	May 25	,, Draft at 60 d/s, due July 27		**8**	**10**	100	–	–
June 30	,, Red Int		8	10				June 30	,, Balance c/d				85	3	2
,, ,,	,, Bal of Int				2	9	10								
					243	13	2						243	13	2
		3	0	4							10	6			
July 1	To Balance brought down				85	3	2								
	E & O E *Liverpool, 30th June, 19*														

Red Interest—Interest falling due after the balancing date must be deducted from the item, not added to it. Thus interest on the draft due July 27 (shown above in thick type) would be entered in red ink to remind the bookkeeper that it must not be added here, but transferred in black to the opposite column.

Method 2.—Continental or Products Method.

ACCOUNT CURRENT.

WEST INDIAN EQUIPMENT SYNDICATE, LTD.

Dr. *Cr.*

Date		Days	£ x days	£	s	d	Date		Days	£ x days	£	s	d.
19							19						
May 21	To Balance	91	7598	83	10	–	Apr. 25	By Transfer	66	3300	50	–	–
Apr 5	,, Goods	86	3870	45	–	–	,, 30	,, Cr Note	61	518	8	10	–
May 24	,, do	37	4169	112	13	4	May 25	,, Dft at 60 d/s, due July 27	**27**	**2700**	100	–	–
June 30	,, Red Product		2700				June 30	,, Balance c/d			85	3	2
,, ,,	,, Interest			2	9	10							
				243	13	2					243	13	2
		6%	18337					Int for 1 day at 1% on £110,022 – £19,090	5%	3818			
			6					£909 32 / 365		5			
		1%	110022					= £2 491	1%	19090			
July 1	To Balance brought down			85	3	2							
	E & O.E *Liverpool, 30th June, 19*												

Products.—The second method is worked on the principle that the interest on any given amount for 2 days is equal to the interest on double that amount for 1 day, at the same rate *per cent.* Thus in the above example, by debiting the W.I. Equipment Syndicate for the use of £7598 for 1 day the same result is obtained as by debiting it with £83. 10*s.* for 91 days.

Exercise 11.

1. Write an essay of about 150 words on Currency.

2. What is the Latin Union? Name the principal moneys of account of the world, with their approximate sterling value at par.

3. Describe briefly the currencies of India and China.

4. What is foreign exchange? Without going into details, enumerate all the means you know by which money may be remitted abroad.

5. Explain fully: (*a*) L/C, (*b*) Circular Note, (*c*) Bank Draft, (*d*) Mail Transfer, and (*e*) T.T.

6. "Bill of Exchange with shipping documents attached." What are these shipping documents? Describe the function of each, and explain why the documents should be attached to the bill of exchange. (S.A.tpc.II.)

7. What is a Documentary Credit? Explain how it works.

8. On the supposition that you are an exporter, shipping largely to customers in India, Australia and New Zealand, explain in detail some of the arrangements you would make (*a*) for securing payment from your customers, (*b*) for obtaining advances on the shipments from the banks with whom you deal. (S.A.tpc.III.)

9. Explain: (*a*) D/A, (*b*) D/P, (*c*) Trust Receipt. (*d*) Marginal Interest, (*e*) Marginal Deposit Receipt.

10. Draft a d/p interest bill at 30 m/s on K. Ananda Simpanjee, Calcutta, for £126 18*s.* 8*d.*, value in 10 C/s Hardware per s.s. "Holywell." Explain the object of this form of draft, which is commonly used by exporters to the East, and state how the same object may be served when drawing on other parts of the world.

11. In what manner may exporters make use of bankers' acceptances to finance their foreign trade? Is this an economical method?

12 (*a*) Explain the reason for drawing bills "in a set," and show to what extent the parties thereto are liable for payment. (*b*) Explain "Exchange Clause," and "Sans Protêt."

13. (*a*) State the uses and disadvantages of private negotiation of bills.

(*b*) What is a foreign bill? Draft one in simple form, from the following particulars:

Drawers:	Barker & Derry, 26A Water Lane, London, E.C. 3.
Drawees:	Southern Motor Co., Sydney, N.S.W.
Payees:	A. Shear, Trojan Ranch, Castlemaine, Victoria.
Amount:	£189 11*s*. 7*d*.
Tenor:	10 days after sight.

14. State the value in sterling, and show working, of 1,000 francs and 1,000 dollars, at rates of exchange of 27·50 and 4·77 respectively. (D.C.C.II.)

15. J. Brown & Co., London, have an A/c with D. Nairobi & Co., of Calcutta. According to Brown & Co.'s books the debit balance on July 1st, 1916, was £319 12*s*. 6*d*. The following are the July transactions:

Debits.	July	3	Shipment per	"Mooltan"	£415	10	6
		18	,,	"Ranee"	£518	12	7
		22	,,	"Malaya"	£289	15	6
		26	,,	"Malacca"	£185	8	2
Credits.	July	5	Draft at 10 d/s	£319 12 6			
		24	,, 3 d/s	£300 0 0			

Interest rules at 5%. Set out in proper form the A/C as per Brown & Co.'s books, showing balance as at August 1st, 1916. (S.A.cc.III.)

Note.—Assume that the drafts contain the usual interest clause, entitling the exporter to cash in London as from date of drawing each bill.

CHAPTER XII.

EXPORTING.

British Export Trade.—The export trade of the United Kingdom may be divided into two main branches . (*a*) the export of home-produced commodities, and (*b*) the sale abroad of the products of other countries. The latter branch might again be split into two sub-divisions, viz. (1) the ordering of foreign goods for **direct shipment** to foreign markets, and (2) what is known as the **entrepôt trade,** *i.e.* the importation of foreign goods for immediate re-export. The London export firms are responsible for the marketing of a large quantity of foreign products, particularly Continental manufactures

Development.—British exporters to the colonies or foreign countries have usually one of two classes of customers in view : (*a*) the foreign **import merchant** (for textiles, hardware, provisions, etc.), or the **user** (for machinery, etc.).

Inquiries may be obtained by means of **advertisements** inserted in the foreign or colonial press, or the British trade papers circulating abroad, or by **circularizing** likely firms, and, in the case of textiles, sending them **samples.** The last-named is an expensive method, and one which has to be carefully done, with full knowledge of local requirements.

The **Department of Overseas Trade** (Development and Intelligence)—a joint department of the Foreign Office and

the Board of Trade—collects information regarding possible importers of British manufactures, their names and status, the class of goods required, and terms of trading. The department also exhibits samples of competitive makes, finds out where overseas buyers obtain their present supplies, and even the prices they pay. Information may also be obtained as to the foreign and colonial customs regulations, forms of certificate of origin, transport facilities, and regulations regarding commercial travellers, etc.

The **Chambers of Commerce**, and such institutions as the British Empire Producers' Organization also render great service in collecting information of importance to exporters, and in having business men's views put before government departments with a view to furthering trade interests. The Board of Trade, many Chambers of Commerce, and the organization mentioned above, publish journals.

Travellers and Agents.—Some manufacturers send travellers abroad to build up trade relations. Overseas travellers are costly to maintain, and for that reason two or more firms sometimes share the expense of sending a traveller to new territory. Many overseas travellers work on commission only, without salary, but the firms who "want to be there first" must pay their own travellers.

Considerable business may be done by a traveller who knows his work and speaks the language well, particularly if he is empowered to contract without consulting his employers, which takes time.[1] With a letter from the inquiry agency in England to which his employers subscribe, he can obtain status reports on customers wherever such agency has branches or correspondents, or he may make his own arrangements locally. His employer looks to him to avoid undesirable firms. As regards stock, if transport

[1] Such an arrangement may be dangerous, however, for the firm employing the traveller.

facilities are good the traveller can probably arrange with a warehousing, forwarding and shipping company (such as the Société de Transports Internationaux, S.A., on the Continent) to receive, warehouse and dispatch goods at a very reasonable cost.

If the traveller does enough business to pay for his keep, his principals may propose to keep him on the spot as manager of a **Foreign Branch**, which would be kept in funds by the head office here. Branch offices are costly to maintain, however, and do not justify their existence unless the business they negotiate is of great importance, or the turnover is increased by the local manager doing other business locally. A more economical method is the establishment of a **Foreign Agency**, by appointing an already well-connected firm as sole agents. Here again the traveller may be of great assistance in finding out suitable people and negotiating with them.

In law the word "agent" is used to denote any person who has power to act on behalf of another person, called the principal. Whatever a properly appointed agent may do, within the scope of the power conferred on him, is binding on the principal. For certain purposes an agent must be authorized in a deed known as a *Power of Attorney* [1]

Travellers and Branch Managers are empowered within limits to contract on behalf of their employers, but outside firms who take up "selling agencies" are usually not agents at all in the proper legal sense, though they may be called agents. The selling agent usually buys from his principal and sells to his customers at his own risk, but is given exclusive Selling Rights, and works under an agreement as to prices, trade-marks, stock, etc.

Sole Selling Rights.—Business is not likely to develop unless the firm on the other side is given a "Sole Agency," which means that the principals will not compete, or allow anyone else to compete with the agents for the sale of the principals'

[1] See *Principles and Practice of Business*, p. 14.

goods within the agency territory. Any inquiries or orders received by the principals *direct* are dealt with as agreed—either referred to the agents, or executed direct, a commission being reserved for the agents.

The agency agreement usually stipulates also that the agents shall not deal or be interested in any other firm's goods of the same class.

Del Credere.—A firm employed by another to act in the legal capacity of agent would not be responsible for the fulfilment of contracts they arranged with third parties on their principals' behalf. But in such cases—which are rarely met with in foreign agency business—a clause may be inserted in the agreement making the agent liable for payment on all orders procured by him. He is then said to be a *Del Credere Agent.* In consideration of the agent's guaranteeing payment by customers, the principals are commonly charged an extra commission (say 1%) called *Del Credere Commission*, or *Guarantee.*

Finance.—Having acquired a sole agency, a good firm of agents may assist their principals to finance the business. Whereas most of the stock, for example, is sent on *Consignment A/c*,[1] to be paid for when sold and realized, the agents may agree to take some on *Current A/c*, that is to buy outright. Such expenses as advertising, special journeys to obtain business, and other charges incurred in the mutual interest of principal and agent are frequently divided.

Duration.—Another point of importance is the length of time the agency agreement is to remain in force, and the manner of terminating it. The agent would not do much pioneering work if he were not guaranteed the sole agency for a year or two *certain* After that the principals usually reserve the right to determine the agency if the turnover does not exceed a certain figure, and a third period is commonly mentioned in the agreement in which the agency may be determined by either party giving notice in writing to the other.

Determination of an agency means putting a limit to its duration ; but its *termination* is the end of it.

Foreign Buyers' U.K. Office.—A number of foreign and colonial railways, mining, sugar and rubber companies, etc.,

[1] See *Principles and Practice of Business*, p. 286.

and large import firms abroad, have an office in England through which their purchases are made, and some of them appoint export firms on this side to act for them as their buying agents.

Such firms are worth canvassing, and if the manufacturer has an office in London or Manchester, with showrooms and a town traveller or two, considerable business may be done on the spot which might otherwise be lost.

The Export Houses.—The greater part of the overseas selling business is in the hands of export firms, who buy outright of the maker here, pay promptly, and take the trouble and risk of shipping and marketing the goods abroad.

Many of these firms import and export simultaneously, their business having been built up by personal negotiation on the part of their founders or travellers who have spent part of their lives on the foreign centres with which they deal. In the early stages of trade with new countries exporting is a necessary corollary of importing, as the early trader has nothing to offer for the native produce but goods, and if he wishes to sell European manufactures he must accept payment in goods. Trade continues in the form of barter until moneychangers or banks or their equivalent follow in the wake of trade. The first bankers are usually merchants, and a few of the big foreign merchants carry on banking business to this day.

In the already developed commercial countries the foreign trader combines import with export in order to make double use of his connections with the home and foreign markets.

The export houses consist of two main classes: (*a*) **Merchants**, who buy and sell on their own account, and frequently hold a stock of goods (*e.g.* the textile and hardware warehouses), and (*b*) **Commission Agents**, who buy on behalf of foreign principals.

Forwarding and Shipping Agents sometimes do a commission business too, though without further responsibility than that of handing sellers the money in exchange for the goods which they collect together and ship to their principals for a commission.

The Commission Agent who buys from home manufacturers, etc., on behalf of foreign principals is *liable for payment* to sellers here, just as though he were buying for himself. He could save himself from personal liability by stating clearly on his orders that he was "acting as agent for and on behalf of Messrs. . . . . of . . . . ," or words to that effect; but manufacturers would not accept such orders unless they knew the people on the other side to be of substantial means and prompt in their payments.

Legally, the Commission Agent, whether buying (exporting) or selling (importing) for a foreign principal, has the authority and obligations of a "*factor*" (see p 389). These firms do not usually reveal the name of their principals to buyers or sellers here, and are as personally liable on the contracts they make as if they were acting on their own account, neither do they always declare to their principals the names of the firms with whom they are dealing Hence they are sometimes styled "**commission merchants.**"

The Exporting Commission Agent's work consists of obtaining quotations for his principals abroad, and ordering and shipping goods for them He is rewarded by his principals with a **buying commission**, ranging from (say) 1% to 5% of the net price which he pays to the manufacturers. Many exporters charge their commission on cost plus charges. The percentage depends upon the amount of work, capital and risk involved.

Manufacturers usually allow shippers special **discount** for export and for cash, but the commission agent—when employed on a commission basis—must not take any such discounts for himself, nor receive any secret commission

from the sellers. As agent for his principals he must answer for all moneys spent on their account, and content himself with the agreed buying commission. This rule does not apply, however, where the exporter quotes a " net " price (p. 327).

Export Prices.—The following diagram shows the names of the most usual quotations, with the charges customarily included in each :

SCHEDULE OF SHIPPING CHARGES
AND
EXPORT QUOTATIONS.

Cost of Goods.	Packing Extra.
Packing.	Loco ; ex works ; ex warehouse.
Cartage to station .	f.o.r.
Carriage to docks . . .	free docks.
Lighterage	
Dock Charges .	f.a.s.
Loading.. .. .	f.o b.
Port Rates or Harbour Dues	
Bills of Lading	
Freight	
Customs formalities	
Consular Invoices or Certificates of origin	
Landing at destination	c. & f. (unusual).
Marine insurance. ..	c.i.f. or c f. & i.
Dock charges on arrival	
Statistique (*i.e.* Customs entries)	
Import Duty	
Cartage	
Warehousing	
Carriage to Interior	
Octroi (if in France)	
Delivery to buyer's domicile.	FRANCO domicile.

The various charges incurred in connection with various shipments are carefully separated by the forwarding agent and the dock company, according to the instructions of the exporter (or importer) employing them. The expenses can

thus be properly shared between the parties concerned, according to the terms of delivery to which they have agreed. Thus, if the seller has quoted

Ex. Warehouse, ex works, or "loco," the buyer naturally pays all expenses.

Free on Rail (f.o.r.) means that the price includes cost of cartage and handling up to delivery into railway waggons. This condition is called *free on board* in the United States.

Free Docks.—These terms are satisfactory to the exporter, but not to the foreign buyer, who risks having to pay charges incurred at the wharf if the goods have to wait for a steamer.

Free alongside Ship (f.a.s.).—If the vessel is to load in mid-stream this condition is better for the buyer than delivery free docks, but sellers do not undertake to pay the cost of getting the goods on board from the lighters.

Free on Board (f.o.b.).—Loading is generally included in the rates of freight quoted by the regular lines for general cargo, but where heavy weights have to be handled, even from the quayside, the cost of special loading tackle may be a great consideration. In the case of full cargoes, the charterer usually has to pay for labour, slings and other tackle used in loading and unloading. By quoting f.o.b. the seller includes in his price all expenses (including dock charges) up to delivery aboard the steamer.

Cost and Freight (c. & f.).—This quotation is not often met with. Buyers overseas who have their own floating policies sometimes order on these terms, but the method involves unnecessary trouble in advising name of ship, etc., to enable the buyer to declare each shipment.

Cost, Insurance and Freight (c.i.f.).—This includes all charges up to landing at port of discharge.

Franco.—A franco price includes the cost of delivery from door to door, and duty. To quote franco domicile is a risky proceeding for the exporter unless he has intimate knowledge of conditions on the other side. Before quoting such a price reliable information should be obtained through the Board of Trade or Chamber of Commerce, or the exporter should ask a transport company for an inclusive quotation.

Form of Quotation.—Export quotations may be expressed in two ways. The exporter may quote a price per yard,

ton, or other unit, delivered f.o.b., c.i.f., etc., or he may send a proforma invoice showing the cost ex works, and an estimate of the subsequent charges. If he quotes a definite figure, c.i.f., etc., either per unit or on the total quantity as shown in a proforma invoice, he must keep to it ; but in the latter case he usually covers himself with a clause to the effect that his estimate is subject to fluctuations in the cost of carriage, freight, insurance, and any other charges.

A special book is kept in the Exporter's office to record c.i.f. or franco calculations. The pages should be numbered to correspond with the Quotation Reference Number (see p. 323).

CALCULATIONS.

01245 *Abdul Mohamad Essam, Colombo. Oct. 6th, 19. .*

500 pieces each 12 yds. Swiss Embroideries sample 83876.				
– 6,000 yards at 2¼*d.* per yard =		£56	5	0
Packing and Packing Case		3	0	0
		£59	5	0
Freight, London to Colombo	£2 5 –			
Incidentals, say	15 –			
		3	0	0
		£62	5	0
Commission 2½%		1	11	2
C.I.F. per 6,000 yards		£63	16	2
C.I.F. per yard 2⅝ pence net.				

01246 *Lampreys, Limited, Hong Kong. Oct. 13th, 19....*

100 tons Galvanized Sheets.				
6/8 ft. × 8/3 ft. Corr. × 24 G.	per ton	£48	0	0
Freight, Incidentals and Petties,	per ton	3	10	0
Commission	,,	1	5	6
C.I.F.	per ton	£52	15	6

Fulfilment of Contract.—Whether the exporter quotes loco, f.o.b., or c.i.f., etc., he is liable for loss or damage in transit due to his own negligence. Having quoted, say f.o.b., the exporter must see that the goods are properly packed for sea transport, that they are put safely on board, and that clean bills of lading are given and transmitted to the buyer. If he pays any charges subsequent to loading, such charges are added to the invoice, and must be paid by the buyer.

Unless a contrary interpretation can be given to the contract of sale, delivery is complete when the goods have been received by a carrier or other bailee for transmission to the buyer. The condition c i f. does not alter the place of delivery, but only expresses the consignor's liability to pay the charges for freight and insurance The seller is not responsible for inherent deterioration during the journey; but he would be liable for deterioration due to faulty packing.

The advantage to the buyer of a quotation which includes delivery is that it shows him just what the goods would cost delivered.

Inquiries and Quotations.—When an exporter receives an inquiry for goods which he does not keep in stock, he has the inquiry copied on his own inquiry forms, and sends copies to likely manufacturers. Commission agents deal with all inquiries in this way, as it is not their business to quote from stock.

The makers' quotations and samples, if any, are then compared, and sent out to the customers as they are, or copied on to the exporter's own quotation forms.

To facilitate reference, all quotations are usually numbered, the same number being copied in red ink on the original makers' tender, and recorded for reference in a

Quotation Book or **Sample Reference Book.**

QUOTATION BOOK
OR
SAMPLE REFERENCE BOOK.

Ref No	Date	From	To	Description.
	19 .			
01241	Oct 6	Crossley Gas	Simpanjee	Vertical Eng.
2	,, ,,	Petters	,,	,,
3	,, ,,	Andrews & Judd	Hai Wan	Pipe Line
4	,, ,,	Ajax Stampgs.	A Laguionie	Locks.
5	,, ,,	Dolder, Flawil	A. M. Essam	Swiss Embroideries

Indents.—An indent is an order from abroad : in particular, an order given by an overseas firm to a commission agent here to buy goods for him The conditions contained in the indent are often laid down by the exporter, as will be clearly seen from the example shown on page 331.

A **closed indent** contains explicit instructions as to the goods required, including the price and name of the makers. Closed indents are simply copied into the commission agent's own order sheets and sent to manufacturers to accept or refuse.

CLOSED INDENT. (*Extract*)

Indent No. 117. Palm Buildings,
Dunedin, N.Z.,

30*th March*, 19 ..

Messrs. H. Lawson & Co.,
London.

Please purchase and ship to us by an early steamer the goods named below, and insure them for the amount of your Invoice with ten per cent. added thereto for imaginary profit. For your reimbursement, please draw on us in favour of the National Bank of New Zealand, with which we have arranged that your

Draft on us, with documents attached, shall be accepted as cash, discount and premium being placed to our account.

LOCKS to be purchased from Hobbs, Hirst & Co.—

4	doz.	Gal. Iron	Padlocks	2″	(Catalogue K3,	p. 34,	No. 118)
6	„	„	„	3″	„	„	125
12	„	„	„	4″	„	„	130

At lowest possible price.
Original Manufacturers' invoice to be sent.

An **Open Indent** is one which merely states what is wanted, and leaves it to the agent to get quotations and order to the principal's best advantage.

OPEN INDENT. *(Extract)*

11. HANDKERCHIEFS in half-dozen Cartons, yellow wrappings, as Indent No. 432/21, our name to be printed on the box.

5	gross	Cotton Print, yellow border,	sample	22
2	„	„ „ plain white	„	23
2½	„	Cambric, assorted	„	24

12. SNAP FASTENERS, tinned, 15 gross. Repeat last order.
Items 6, 7, 8, 10 and 11 subject to our confirmation.

An open indent may give the agent *carte blanche*, with or without a price limit, or it may be **subject to confirmation**, telegraphic or otherwise.

The Shipping Order to manufacturers contains instructions regarding packing, marking, delivery, etc., and usually defines or reiterates the terms of the contract. (See p. 333.)

Shipment.—Just before the goods are due for delivery the exporter writes to the manufacturers to find out when they will be ready. He then selects a suitable steamer, ascertains whether there is likely to be sufficient cargo

space, and sends shipping instructions to all manufacturers whose goods he wishes to combine in the one shipment.

SHIPPING INSTRUCTIONS.

London, *4th October*, 19*22*.

Messrs. M'Lean & Co., Coventry.

Please forward goods against our Order No. 897 dated *5th September*, for shipment per s.s. *Dunkeld*, sailing *17th inst.*, closing *15th inst.* loading at *Royal Albert Docks, London, E.*, addressed to our Order.

Please advise us by return if you cannot guarantee shipment by the time stated.

Invoices to be sent in triplicate, showing gross and net weights, measurements, marks and numbers.

EDWARD CARSON & CO.

Soft goods are usually delivered to the exporter's address or to a firm of export packers acting for him. They are then examined, folded, packed, port-marked and sent down for shipment.

Hardware or machinery, on the other hand, are usually forwarded by manufacturers direct to the dock, and if sold f.o.b. they are of course put on board at manufacturers' expense.

It now remains for the Commission Agent to attend to the shipment of the goods: to prepare the bills of lading, advise the superintendent of the docks, insure, and (where necessary) to obtain the necessary certificate of origin or consular invoice.

Invoices.—When working on a commission basis the exporter usually sends his principals the original suppliers' invoices attached to his own.

COMMISSION AGENT'S EXPORT INVOICE.

INVOICE of 8 Cases Machinery shipped per s.s. *Dunkeld* for *Montevideo* by order and for account and risk of *Messrs. Jose de Valera y Cia.* by

EDWARD CARSON & CO.

Montevideo 21/28 = 8 Cases. Gross and Net Weights as shown on original invoices attached hereto.

Nos.		£	*s.*	*d.*	£	*s.*	*d.*
21/3	M'Lean & Co., Coventry, invoice - - - - -				84	10	0
24	Rotary Drill Co., Sheffield, invoice - - - - -				63	2	0
25/8	Orchard Bros., Ltd., Sheffield, invoice - - - - -				114	17	0
					262	9	0
	Charges :						
	Railway Carriage on Cases 25/8 from Sheffield - - -	2	4	0			
	Freight, 1-11-2-0 at 60*s.* - - £4 14 6; Primage 10% 9 5	5	3	11			
	Insurance, £300 at 11*s.* % and Policy Stamp - - -	1	13	6			
	Dock and Town Dues, etc. -		12	7			
	Bill of Lading and Petties -		3	0	9	17	0
					272	6	0
	Commission 5% - - - -				13	12	4
	At current rate of exchange \$1 = 51*d.* 1345 Dollars 49 cents.				285	18	4

We have drawn on you at 30 d/s for above amount through the Anglo-South American Bank, Ltd., documents to be surrendered against payment.

E. & O.E. London, 19*th Oct.*, 19....

Enclosures.—It sometimes occurs that the foreign buyers have ordered other goods independently of the commission agent, in which case they may ask him to collect together such goods, include them with their shipment to save trouble and expense, and pay suppliers. The exporter charges a slight commission for such services, and enters the values on a separate invoice, or in separate columns of the same invoice, to avoid confusion in calculating his commission at different rates.

Net Price.—Commission agents do not always work for a fixed commission The amount of the agent's commission is a matter for agreement between himself and his principals, and he may, if he likes, quote them a "net" price including his commission. If, then, the "net" quotation is accepted, the principals cannot afterwards question the exporter as to how much profit he has made.

The documents reproduced on the following pages will serve to illustrate a transaction between a firm of commission merchants in London and their customers in India. It will be noticed that the exporters quote their own prices, and no mention is made of the manufacturer. In such a case the exporter occupies the position of (*a*) *Merchant* for the supply of the goods, and (*b*) *Agent* for attending to shipment.

A net price means a gain to the agent if he sees an opportunity of making more than his fixed commission and yet do well for his principals and retain their custom. On the other hand, where manufacturers only quote *ex works* or *f.o.b.* the principals may prefer to know exactly what the goods will cost them delivered *c.i.f.* or *franco*, and are glad if their agent will quote "net" including delivery.

EXPORT TRANSACTION.

Purchase and shipment to Colombo of Swiss Embroideries by London Commission Merchant.

1. Messrs. F. Page & Co. of London, general import and export merchants, have received from their customers, Messrs. A. Mohamad Essam & Bros. of Colombo, an Inquiry with 3 numbered samples of Swiss Embroideries, of which they desire a Quotation for 30 pieces each.

2. London Merchant's Inquiry to Swiss Manufacturer

F. PAGE & CO. *1st October*, 19.

F. Page
G. Mitcham.

84 Gracechurch Street,
London, E.C. 3.

Messrs. *J. Dolder, Fils,*
Flawil,
Switzerland.

TELEPHONE 9927 Avenue
INLAND TELEGRAMS. "PAGINA, GRACE, LONDON"
FOREIGN TELEGRAMS · "PAGINA, LONDON"

Please quote us your lowest prices and best export terms for the undermentioned, delivered *Free English or Continental Port.*
State how long your quotation remains open, and earliest probable date of delivery.

Embroideries in pieces of 12 yards assorted as follows :

Ref. No.	83876	83948	84083
Pieces	30	30	30

Yours faithfully,

F. PAGE & CO.

3. Manufacturer's Quotation to Exporter :

J. Dolder Fils,

Fabrique de Broderie
Suisse.

Flawil, *4th October*, 19 ...

Messrs. F. Page & Company,
London.

Dear Sirs,

Replying to your esteemed inquiry of the 1st inst., we beg to quote for three different designs of Embroidery as per enclosed samples.

J. Dolder Fils.

Ref. No. 83876	30 × 12 yds.	at $2\frac{1}{8}d.$	per yd.
,, 83948	30 × 12 ,,	at $2\frac{5}{8}d.$	,,
,, 84083	30 × 12 ,,	at $3\frac{1}{8}d.$	,,

Prices per yard net.

Terms. $3\frac{3}{4}$% prompt cash.

Goods free London or Continental Port, packing free.
Certificate of origin (if required) at cost price.
Delivery 3/4 weeks after confirmation of order from here.
This quotation remains open for 2 weeks.

4. Exporter's Quotation to Customer :

TELEPHONE AVENUE 9927 (3 lines)
TELEGRAMS "PAGINA," LONDON

A1, A.B.C 4th and 5th Editions,
Bentley's, Premier and Private Codes

F. PAGE & CO.,
F Page
G Mitcham
84 Gracechurch Street,
London, E.C. 3.

To Messrs. A. Mohamad & Bros.
Delivery : Free English or Continental Port.
Terms : Cash in London.
Option : Subject to market fluctuations.
Code Word : Brodifla. *Conditions as per margin.*

Material to be Seller's usual mill finish unless specially stipulated for, and the customary rolling and shearing margin claimed by the Manufacturer's to be made

Samples shewn to serve only as average guides of bulk The usual strike, accident, and FORCE MAJEURE clauses to apply

Sellers not responsible for loss of weight, breakage or damage of any kind after ship has signed a clean receipt, whether goods are sold C I F or not.

Delays in deliveries through contingencies beyond the control of the seller not to vitiate the contract to entitle the Buyers to any compensation

No claims for short weight will be allowed unless a sworn weight certificate or other satisfactory proof be given to Sellers or their Agents

All tests and inspections must be made before material leaves the works Any dispute on this contract to be settled in London by Arbitration

C I F contracts are accepted subject to the express condition that cargo space in steamers of the Shipping Conference loading in London or elsewhere is available and obtainable at the rate of freight prevailing for that class of material at the time the contract is booked

Reference No. 12345.

Embroideries in pieces of 12 yards assorted as under :

Ref. No.	83876 at $2\frac{1}{2}d.$	83948 at $3d.$ per yd.
Pieces	30	30
Ref. No.	84083 at $3\frac{1}{2}d.$ per yd.	
Pieces	30	

Packed as usual in fancy yellow envelopes, open faced, your name and address to be printed thereon.

Delivery in approximately 4 weeks.

Without engagement.

London, *6th October*, 1922.

Thro' Abdul Worah & Co.

5. Customer's Indent to Exporter :

Indent No. 639.

Through Colombo, 23*rd November*, 19...

Messrs. Abdul, Worah & Co.,
Colombo.

To Messrs. F. Page & Co., London.

From A. Mohamad Essam & Bros., Kayman's Gate.

DEAR SIRS,

I/we hereby authorize you to buy and ship on my/our account and risk the whole or any portion of the undermentioned goods.

I/we authorize you or any one on your behalf to draw upon me/us at 30 days' sight for full amount of Invoice or Invoices, and such Bill or Bills

I/we bind ourselves to accept on presentation and to pay at maturity plus interest as customary. Should I/we fail to accept or to pay at maturity such Bill or Bills, I/we hereby authorize your Agents, A. Worah & Co., Colombo, to dispose of the documents or goods either by private sale or by public auction on my/our account and risk, and I/we hereby undertake to make good any loss or deficiency that may occur by reason of such sale.

The date of delivery to carrier to count as shipment, and no goods to be cancelled for late delivery unless the stipulated time has been exceeded by more than twenty days on each shipment, and any time lost in referring this order to be added to the time originally given for shipment.

I/we will examine the goods within twenty days of landing, and no claim whatever will be made after that time.

In the event of any dispute, survey to be held according to Chamber of Commerce Rules, or the same shall be referred to one or two European Merchants, who in case of need shall appoint an arbitrator, and I/we agree to accept his or their decision as final. The usual survey fees to be paid by the losing party.

I/we will not hold you liable for delay or non-delivery arising from strikes or any combination of operatives or from any cause beyond your control.

Anything written on this sheet in any other language than

English besides my/our own plain signature to be considered null and void.

Commission......per cent. Insurance......per cent. over.

A M
639
E

Invoice amount payable at Colombo.

90 pieces Embroideries, each piece 12 yards, assorted as under :

No.	83876 at $2\frac{1}{2}d.$;	83948 at $3d.$;	84083 at $3\frac{1}{2}d.$ per yd.
Pcs.	30	30	30

Free English or Continental Port.
Packing as usual in fancy yellow envelope, open faced and with the following name and address printed :

"A. Mohamad Essam & Bros.,
No. 11 Sea Street,
Colombo."

Shipment. As early as possible. Shipping sample should accompany Invoice.
Certificate of Origin must be sent.

Yours faithfully,

(Sgd.) A. Mohamad Essam & Bros.

6. Exporter's Order to Manufacturer :

ORDER.

No. Y. 123. *Ref.* I.R. 654. *From* F. PAGE & Co., 84 Gracechurch Street, London, E.C. 3. TELEGRAPHIC ADDRESS . " PAGINA, GRACE, LONDON." TELEPHONE : 9927/9 AVENUE.	*Established* 1789. *London*, 21st Dec. 19.... *Messrs.* J. Dolder, Fils, Flawil, Switzerland.

90 pieces Embroideries, each piece 12 yards as under :

30 pieces No. 83876 at $2\frac{1}{8}$*d.* per yard.
30 pieces No. 83948 at $2\frac{5}{8}$*d.* per yard.
30 pieces No. 84083 at $3\frac{1}{8}$*d.* per yard.

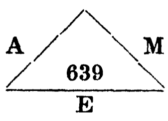
Shipping samples with certificate of origin to be sent with invoices.

Packing as usual in Fancy Yellow Envelope on which is printed the undermentioned address :

" A Mohamad Essam & Bros.,
No. 11 Sea Street,
Colombo."

Price as above, less $2\frac{1}{2}$% and $1\frac{1}{4}$%. F.O.B. Continental Port.
Terms of Payment : by Cheque second Tuesday after shipment.
Shipment 3/4 weeks. Shipping instructions in due course.
Invoice in triplicate with statement showing Cash Discount. Marks, Nos., Weights, and Measurements to be given on Invoice.
Merchandise Marks Act to be observed.

MARKS AND NOS.



Colombo.

F. PAGE & CO.

Should any details not be found correct, kindly inform us in your acknowledgment, which must be sent by return of post.

7. The next step for the Exporter is to consult the sailing cards of the various shipping lines plying to Colombo, and to find a suitable steamer loading at a port as near as possible to the Manufacturer's address.

In due course the Exporters instruct the Manufacturer to forward to London for shipment by the s.s. *Mandasor* loading

in the Royal Albert Dock, and closing on the 8th February. Messrs. Dolder employ one of the Continental forwarding and shipping companies to convey the goods to London—say the World Transport Agency, Ltd., Messrs. Stockwell & Co., Ltd., or Messrs. Robert Park & Co., Ltd.

8. On receiving advice that the goods have been delivered to the docks for shipment by the s.s. *Mandasor* the Exporter proceeds to prepare Bills of Lading, to ensure the shipment.

9. Exporter's Invoice to Customer:

No. 717. B. 3.

INVOICE.

of Goods shipped per s.s. *Mandasor to* Colombo.
by F. Page & Co. *for risk and on account of*
Messrs. A. Mohamad Essam & Bros. *of* Colombo,
marked and numbered as per margin.

Order dated . *London*, 10th February, 19. ..

		£	s.	d	£	s.
A M / 639 / E	1 Case Embroideries					
	Measurement: 26″ × 26″ × 19″					
	Weight: Gross, 2.3 6 / Net 2.1.5.					
Colombo.						
#117	30 pcs No. 83876 at $2\frac{1}{2}d.$ p. yd.	3	15	-		
	30 ,, No. 83948 at 3*d.* ,,	4	10	-		
	30 ,, No. 84083 at $3\frac{1}{2}d.$,,	5	5	-		
					13	10
	Freight 7 ft. 4 in. *Min.*	1	5	-		
	Primage at %					
	Case and Packing Charges					
	Railway Carriage, Haulage					
	Dock Dues, 1/-, *Town Dues,* 1/- *and Entry*		2	-		
	B/Lading 2/6, *B/Stamp* *Petties* 2/6%		3	-		
	Insurance on £20 *at* 12/6% *and Policy Stamp*		3	-		
	Bank Fee		1	-		
	Bill Stamp		1		1	15
	C.I.F. Colombo.			£	15	5
	E. & O.E.					

10. Finally, the Exporter draws an "interest bill" on his Customer in Colombo, in accordance with the terms of the indent, and negotiates the draft through one of the Eastern banks in London.

Direct Trading.—Reasons have been given elsewhere[1] for the existence of middlemen in the Home Trade, most of which apply with equal force to export trading. Some producers manage to free themselves from the export merchants and agents, but in overseas business the difficulties of direct trading are greater than at home.

In any case suitable agents are essential to successful selling abroad by manufacturers, and most producers find they cannot do without the independent export houses. The manufacturer's function is to produce what is required and seek proper channels of distribution. By undertaking both manufacture and distribution to foreign markets he is likely to incur a financial and moral burden that may handicap the efficiency of his service or the quality of his goods. And by seeking to trade direct he naturally makes enemies of the home merchants whose province he invades.

The merchant is able by his connections and experience to study the requirements and peculiarities of foreign markets, though in this respect the manufacturer naturally gets better assistance from his own agents or representatives abroad than in the course of his dealings with export houses on this side. But the exporter is particularly helpful to the manufacturer here in that he has usually plenty of business to offer, and guarantees payment. To his customers abroad the exporter, whether merchant or commission agent, offers advantages which foreign importers can hardly do without. To ship goods to strangers in foreign countries is a notoriously risky business, and manufacturers are not anxious to undertake it. A foreign or colonial importer wishing to buy direct would be

[1] *Principles and Practice of Business*, p. 4.

required in most cases to send cash with order, or at best the manufacturer would require cash against documents in London or other port of shipment. If cash is sent with the order the buyer has to wait for his money for a very long time, for he cannot recover it until the order has been executed, and the goods are shipped, delivered and sold. Moreover, once the manufacturer has got his money there is little incentive for him to execute the order promptly, and if the goods are unsatisfactory the foreigner will find it difficult to get satisfaction from a distance.

Where goods are to be ordered from several different manufacturers, direct trading may be facilitated by the overseas buyer employing a shipping agent on this side, and arranging that each manufacturer shall deliver the goods to the shipping agent, and look to him for payment. In this way an economy is effected in shipping charges, and the makers do not get their money until they have supplied the goods. The shipping agent would charge about 1% commission on the value of the purchases, in addition to his 5% or so on forwarding charges.

But the Commission Agent's fee includes all these services, and instead of having to pay *before* shipment the buyer usually gets d/p or d/a terms, and in many cases he is allowed credit, or is called upon to pay his accounts periodically by open drafts (without documents) at long usance. In the Eastern trade such bills are not infrequently dishonoured—an occurrence which shocks the Eastern mind less than that of the Westerner—but the commission agent is not always dismayed. His dusky client may be a wealthy man for all that, and is as anxious to maintain his relations with the exporter as the latter to recover his money—in the long run. But such methods of business do not suit the manufacturer.

In some cases the buying agent's utility lies in his technical knowledge. A closed indent gives the exporter

no opportunity to use his judgment; but commission business is not all done on such lines. The exporter is better acquainted with the home market than his foreign customer, and there are a few buying agents who specialize in the shipment of machinery, boilers, constructional steelwork, etc., and act as consulting engineers as well as merchants.

In case of disputes the British exporter is in a far better position than his overseas principal to enforce the latter's claims. To institute legal proceedings from the other side of the globe is costly and highly unsatisfactory, The exporter is on the spot and can get the best advice; indeed disputes are less likely to end in legal proceedings when the claimant is a substantial firm on this side, whose custom manufacturers are anxious to maintain

Finally, by employing the services of a commission agent, the foreign or colonial buyer actually pays little or no more for his goods. Manufacturers protect the export houses by means of special export discounts, thus enabling overseas buyers to purchase cheaper through an agent than direct. To the maker's net price must be added the agent's commission, but that includes for services which greatly economise in the cost of shipment, and the commission is frequently no greater in amount than the export discount.

Foreign Telegrams.—The cost of sending telegrams to distant countries is so heavy that every clerk in an exporter's or importer's office should make it his business to know the most economical way of compiling the message, and the best route to use for every telegram which has to be sent abroad. Before going into details it may be stated briefly that Foreign and Colonial Telegrams may be sent (*a*) through the Post Office; (*b*) by one of the cable companies; or (*c*) by Marconi (wireless); and may be written in

1. Plain Language;
2. Code Language; or
3. Cipher.

Route.—Telegrams for near European countries and for North Africa *via* France are sent through the Post Office; but Denmark, Gibraltar, Greece, Libya, Malta, Morocco, Portugal, Rhodes, Eastern Russia, Spain Sweden, the Azores, Canary Islands, and all extra-European countries are served by the telegraphic companies. Special forms are provided at the Post Office for foreign and colonial telegrams. Telegrams written on forms supplied by the telegraph companies are also accepted at the Post Office, but to avoid delay any telegram for transmission by a telegraph company should be handed in if possible at the office of the company concerned.

EUROPEAN SYSTEM.

(In no case is a lower sum than 10*d* accepted for a telegram or reply.)

	For each Word		For each Word
	s *d*		*s* *d*
ALBANIA Vallona -	0 4½	HOLLAND - - - -	0 2
ALGERIA (or ALGIERS) -	0 2½	ICELAND - - - - -	0 4

EXTRA-EUROPEAN SYSTEM.

ORDINARY RATE	For each Word	DEFERRED RATE for telegrams in plain language accepted on condition that they may, if necessary, be deferred during transmission in favour of full-rate telegrams. The indication "LCO" or "LCF" is counted and charged for	For each Word
	s *d*		*s* *d*
AUSTRALIA—*continued*		AUSTRALIA—*continued*	
Flinders Island, **King Island**: Pacific Cable routes as above, Eastern Co, Indo-European Co	3 1	**Flinders Island**, **King Island**: Pacific Cable routes as above, Eastern Co., Indo-European Co	1 6½
Woodlark Island, Do -	3 2	**Woodlark Island**, Do -	1 7
BAHAMAS Anglo-American Co. - -, Direct U S Co. -, French Co -, Western Union Co - -, Commercial Co -	2 5	BAHAMAS - - -	1 2½
Viâ Marconi -	2 1		

A list of the various telegraphic routes and charges for

foreign and Colonial telegrams is contained in the *Post Office Guide*, from which the foregoing extract has been taken by way of illustration.

Plain Language consists of words, figures or letters used in their ordinary meanings, and composing a message written in any one of the principal European languages and written in Roman characters. Fifteen letters are allowed in any single word when plain language is used, and any excess up to fifteen letters is charged as another word.

Although messages may be condensed into a fewer number of words by the use of telegraphic codes, plain language may be cheaper for short messages, as the number of letters allowed for each word is greater, and when plain language is used advantage may be taken of the special *Deferred Rates* referred to in the above table. Telegrams in plain language may also be sent by wireless (Marconi), which is cheaper than cable. Special reduced rates are charged for press telegrams sent between 6 p.m. and 6 a.m.

Code Language consists of pronounceable groups of letters that are not real words, or words the context of which has no intelligible meaning. Words of more than ten letters, whether code words or not, are charged for extra at the rate of ten letters per word.

A number of Standard Codes and vocabularies are published, such as the A.B.C., Lieber's, Bentley's, Scott's, and the Western Union code. In addition to these, all firms doing much overseas business use Private Codes specially adapted for communicating with their own customers.

The following is an extract from the A.B.C. Code, 5th edition :

Code No	Code Words	BIL Bill(s) of lading—*continued*
05527	Bandearian	Bill(s) of lading already forwarded
05528	Bandearon	Cannot forward bill(s) of lading.
05529	Bandel	Cannot forward bill(s) of lading as you wish
05530	Bandellina	—— has arrived, no bill(s) of lading received.
05531	Bandenola	Have you received bill(s) of lading ?
05532	Banderaio	Bill(s) of lading to hand
05533	Bandersee	Bill(s) of lading to hand but not in order.
05534	Banderolas	Bill(s) of lading for —— not received

Copies of all telegrams should be sent by next mail, together with a transcription. The following example will illustrate the use of the ordinary phrase code:

London, 20th January, *19...*

TRANSCRIPTION *of telegram sent* 16th Jan., 19...
to M The British Malayan Trading Co., Singapore,
from H. Johnson & Co.

Bracken	Telegraphic Address of British Malayan Trading Co.,
Singapore	Singapore,
Amatonga	s.s. "Amatonga"
Bandellina	has arrived, no bills of lading received,
Johnson	H. Johnson & Co.

The above code message would cost at the full rate of 2*s.* 10*d.* per word 11*s.* 4*d.* The same message expressed in plain language as: "Bracken Singapore Send Bladings Amatonga Johnson," and sent at deferred rate (1*s.* 5*d.* per word) would only cost 6*s.* 8*d.* The reason is that the message is so short that the use of the code only effects a saving of one word.

Cipher Telegrams are those containing series or groups of figures or letters having a secret meaning, or not fulfilling the conditions of plain language or code. Letters and figures cannot be combined in one group.

Any standard vocabulary with code numbers and code words in parallel columns may be used to compile a cipher message, by means of a key consisting of a word of ten different letters, *e.g.* "Flypowders," "Bankruptcy," etc.

EXAMPLE.—By way of illustration we will transcribe a message taken from the A.B.C. code, but turned into letter cipher with the key "Lemonjuicy":

"STANDARCO LISBON ENIEY ECMIY MEUNL WALKER."

	Standarco Lisbon.	Telegraphic address of Standard Fruit Co., Lisbon.
Eniey	=25820	There is an unfavourable change in the market.
Ecmiy	=29380	Do not commence packing until you have further instructions.
Meunl	=32751	Telegraph what date you expect to be ready.

Private Codes.—A great deal of information may be condensed into one code-word by the use of private codes constructed to meet the special requirements of the business for which they are used. There are a number of ingenious systems in use, which may be classified

1. Simple Codes ;
2. Combination Codes { (*a*) Syllable codes. (*b*) Figure codes.

1. *Simple Code.*—The following example, extracted from a trade catalogue, explains itself :

STANDARD BLACKSMITH'S TOOLS FOR SHARPENING DRILL STEELS.

Shop No.	Name	Telegraph Name and Price											
		"A" Size				"B" to "F" size				"G" and "H" size.			
			£	*s*	*d*		£	*s*	*d*		£	*s*	*d*
102	Dolly	Vogeledeis	0	10	6	Vogeleduco	0	12	6	Vogeledos	0	18	9
103	Sow	Vogeledent	0	10	6	Vogelediga	0	11	6	Vogeleduto	0	16	9
104	Spreader	Vogeledero	0	6	6	Vogeledine	0	6	6	Vogelefana	0	9	6
105	Flatter	Vogeledha	0	5	3	Vogeledior	0	6	3	Vogelefeci	0	9	6
106	Swage	Vogeledian	0	5	3	Vogeledius	0	5	3	Vogeleffai	0	8	6

2. (*a*) *Syllable Combination Code.*—In the next example sizes are expressed in length and diameter by a combination of roots and terminations :

STEAM HOSE PRICE LIST.

	Size, Inches	Ply	Price per Foot			Price without Couplings						Price with Coupling at each end						Net Weight one Length with Couplings		Telegraph Terminals (see Roots at bottom of page)
						25 feet Lengths			50 feet Lengths			25 feet Lengths			50 feet Lengths			25 feet Lengths.	50 feet Lengths	
			£	*s*	*d*	£	*s*	*d*	£	*s*	*d*	£	*s*	*d*	£	*s*	*d*			
	¾	5	0	2	3	2	15	9	5	11	6	3	10	9	6	6	6	31	57	uffa
am	¾	6	0	2	8	3	4	9	6	9	6	3	19	9	7	4	6	36	67	ufflo.
se	1	5	0	3	0	3	19	2	6	18	4	4	5	9	7	15	0	38	70	uflas.
line	1	6	0	3	4	4	3	3	8	6	6	5	0	0	9	3	6	45	84	ufolo.
und	1¼	5	0	3	6	4	7	0	8	14	0	5	8	0	9	15	0	47	86	ufos
	1¼	6	0	3	9	4	17	6	9	15	0	5	18	6	10	16	0	53	98	ugado.
Telegraphic Roots						Zymac.			Zynar.			Zyson			Zytus					

Example.—"Three Zysonuflas" = Three twenty-five foot lengths of 1-in. diameter marline wound steam hose with coupling at each end.

(*b*) *Figure Combination Code.*—The highest development in private codes is attained by the use of a series of figures, which are to be read in groups of two, three or four, each group being taken from a separate code table referring to pattern, width (of cloth), quantity, price, and time of delivery, or any combination of these. It is convenient to use a series of ten figures, which may be translated into a pronounceable group of syllables of ten letters and sent as code language. The figures are formed into a code word by means of a table such as the following:

	A	E	I	O	U		A	E	I	O	
B	00	05	10	15	20	P	50	55	60	65	70
C	01	06	11	16	21	Q	51	56	61	66	71
D	02	07	12	17	22	R	52	57	62	67	
F	03	08	13	18	23	S	53	58	63	68	
G	04	09	14	19	24	T	54	59	64	69	
H	25	30	35	40	45	V	75	80	85	90	
K	26	31	36	41	46	W	76	81	86	91	
L	27	32	37	42	47	X	77	82	87	92	
M	28	33	38	43	48	Y	78	83	88	93	
N	29	34	39	44	49	Z	79	84	89	94	

EXAMPLE.—To interpret from our figure code the message "Doremifayo," we first write out each syllable as a group of two letters from the above Conversion Table: the result is the series 1757380393, which we then proceed to divide into groups according to the code system we have adopted, viz.:

175—7—380—39—3.

Our code system may be arranged as we like it, to meet the peculiar requirements of our business; but we will imagine that in this case the first three figures give the pattern no., the 4th figure the width, the 5th, 6th and 7th refer to quantity and date of shipment, the 8th and 9th to price, and the last serves as a **check figure** derived by adding up the other nine digits and putting down the last figure of the total.

Referring to the appropriate tables, we find that the groups mean:

175 = Pattern No. 175.
7 = Width 38 inches.
380 = 19 pieces—to be shipped (no time given).
39 = at $45\frac{1}{2}d.$ per yard.
3 = check figure from total 43.

EXERCISE 12.

1. State some methods by which orders for foreign trade can be procured. (U.E.I.tpc.Inter.)

2. What do you understand by a "sole agency"? State briefly a few conditions you would expect to find in a selling agency agreement.

3. What do you understand by goods sent "on consignment"? If I send goods on consignment to a firm abroad, in what relationship does the consignee stand to me? What is the name, and what is the character of the document which the consignee sends to me when he has performed his part of the business? (S.A.cc.II.)

4. Explain fully the functions of the commission agent in the export trade. (U.E.I.tpc.Int.)

5. Does a foreign importer gain anything by buying on a c.i.f. price rather than on a f.o.b. price? Would he gain anything if he bought at a price f.a.s. instead of at a price c. and f.? Explain your answer fully? (S.A.cc.II.)

6. (*a*) From the point of view of the wholesale export trader, what constitutes satisfactory execution of an order by a manufacturer who has placed the goods f.o.b.? (S.A.tpc.II.)

(*b*) Is an exporter responsible for sound delivery at destination of (*a*) goods sold f.o.b., and (*b*) goods sold c.i.f.?

7. If a Bradford merchant is prepared to sell cloth *ex* Warehouse at 15*s*. 9*d*. per yd., what will be the price c.i.f. Genoa in Lire per yard on a shipment of 800 yds., packed in 5 cases each measuring 3 ft. 6 in. × 3 ft. 6 in. × 2 ft. 6 in.; Cases and packing 16*s*. each; Carriage to docks £5 10*s*.; Dock charges 5*s*. 9*d*. per case; B/L 2*s*. 6*d*.; Freight £6 10*s*. per ton meast.; Marine Insurance on £700 at 4*s*. %; 104 lire = £1? (S.A.cc.III.)

8. A merchant was asked to quote for goods to the catalogue value of £90. He quoted the list price, less 7½%. The three cases in which the goods were packed cost 6*s*. 9*d*. apiece; Consular invoice was 2*s*. 6*d*.; Freight £4 10*s*. 9*d*.; Insurance 25*s*.% on a declared value of £110. A duty was payable on the goods at port of destination of 25% *ad val.* Sketch out invoices for the shipment: (*a*) f.o.b., (*b*) c. and f., (*c*) c.i.f., (*d*) Franco port of destination. (S.A.cc.II.)

9. (1) If you are prepared to sell 5000 yards White Sheeting *ex* warehouse for 10⅛d. per yard, what price per yard would you quote a South African buyer c.i.f. Capetown, if the packing

of 8 cases cost 13*s*. 9*d*. each; carriage to docks £1 2*s*. 9*d*.; dock charges 18*s*. 3*d*.; B/L 2*s*. 6*d*.; freight £27 10*s*.; and insurance a.a.r. could be effected at 5 guineas %?

(*a*) Mention two kinds of Marine Insurance other than a.a.r. and explain what they mean. (S.A.cc.II.)

10. Mr. John Collins, of Manchester, writes Messrs. Grant & Co. of New York, to acknowledge receipt of order. He states that full attention will be given to it; how and when the goods will be shipped; when the shipment is made, invoice and copy of B/L will be sent. Mr. Collins hopes that Grant & Co. will be fully satisfied, and trusts to receive the continuance of their past favours.

Draw up the above letter as it would appear in practice. (U.L.C.cc.4.)

11. (*a*) Make out a c.i.f. invoice from the following, and also give the amount of the invoice c. and f. and f.o.b.:—

15 doz. White Cotton Turkish Towels, at 6*s*. 6*d*. per doz.
36 ,, Cairo ,, ,, at 25*s*. 3*d*. ,,
28 ,, Grey Sultan Cotton ,, at 17*s*. 9*d*. ,,
2 pieces Grey Cotton Rollering = 43 yds. at 7½d. per yd.

Packed in 5 cases, total weight, 20 cwt. 1 qr. Carriage to docks at 35*s*. per ton; Dock charges 14*s*. 9*d*.; B/L 2*s*. 6*d*.; Freight £25 18*s*.; Insurance at 15*s*. % on the value declared.

(*N.B.*—It is not necessary to spend time in ruling up the invoice. It is sufficient to show working and approximately correct results.)

(*b*) What is a floating policy? If you, a shipper, had in force a floating policy, how would you effect insurance on the shipment? (S.A.cc.II.)

12. As correspondence clerk to the shippers, W. Wood & Co., 19 Upper Thames Street, London, E.C. 4, draft from the following rough notes, under date January 16, 19.., a letter of advice to the consignees, B. Howard & Co., 129 Fourth Avenue, New York City:—

Notes.—Their Indent No. 1923—5 cases woollens B. H. & Co. in a diamond 843/847—per Cunard ss. "Mongolian" *ex* L'pool 18th inst.—Invoice value £846. 10*s*. drawn for at 30 d/s through Lloyds Bank Ltd.—Consular and ordinary invoices, B/L, Policy attached—D/P. (S.A.cc.III.)

13. Draw up, in proper style and form, a foreign invoice for the following:—

Batley, 20th December, 19.... Shipped by Rowlands & Co. to P. M. Angula & Co., Calcutta.

P.M.A. & Co. | Calcutta. 5 cases, each containing 24 pcs. 48″ Coloured Vicunas, each 48 yds., at 7¾*d*.

Assortments of blk., brown, navy, grey, drab, in each case.
Deduct 1¾ *per cent.* discount.

4/- × 2/2 × 4/-. 4 cwt. 0 qr. 0 lb. per case.

Extend and add the following charges :—

Packing 12*s.* 6*d.* each case. M/u, 9*d.* per pce. Fire Insurance, ⅛th *per cent.* on £200. Carr. to Birkenhead, 15*s.* per ton wt. Dues at 6*d.* per case. Ft., 35*s.* per ton meast., and 10 *per cent.* primage. Marine Insurance on £220- at 6*s.* 8*d.* f.p.a. and stamp.

Show the total. (L.C.U.cc.4.)

14. Show the price per yd. of the goods forming the above invoice (*a*) c.i.f. Calcutta, and (*b*) f.o.b. Birkenhead. (L.C.U.cc.4.)

15. What is the difference between a Cash Discount and a Trade Discount ? Why is it usual for Manufacturers to offer a larger discount to Shippers than to home traders ? (S.A.tpc.II.)

16. A city merchant receives from abroad an order for goods, which in due course is executed. State as fully as you can the various documents that will have to be prepared in connection with this order, from the time of its receipt in London down to the date when the goods are dispatched. (S.A.tpc.III.)

17. (*a*) If you were shipping goods abroad, and were making a draft on the consignee for the c.i.f. value through a bank, state exactly what documents would have to be attached to the draft. (C.I.S.Inter.)

(*b*) Sometimes a buying agent, employed on a commission basis, quotes a "net" price to his principal. What is the meaning of a net price in these circumstances, and what is the agent's object in quoting a net price ? (S.A.tpc.II.)

18. Why do not all foreign buyers deal direct with manufacturers of British goods instead of buying through the local agents in their own country or the export houses here ? Who are the foreign buyers ?

19. Explain the difference between and relative advantages of plain language, code and cipher telegrams.

20. Describe three distinct private code systems, and show some uses to which each could be put when applied to any business with which you are familiar.

21. You are an exporter of stationery and have received an order from Melbourne for your stock lines, value, say, £100. State the procedure you would follow in getting the goods to your customer in Melbourne. (S.A.cc.II.)

CHAPTER XIII.

IMPORTING.

British Imports.—The greater part of our imports consists of raw materials and food-stuffs. The importation of foreign manufactured goods is, however, an important business, especially in London, where merchants not only purchase manufactures for sale within the country, but also for re-export and, to a considerable extent, for direct shipment to overseas markets.

As in the home trade, so in the foreign trade, the distribution of manufactured goods differs very widely from the customary methods of dealing with produce and minerals. In the sale of produce the *centralised market* features very prominently, whereas manufacturers and the users of their goods have little use for such institutions apart from occasional visits to exhibitions and such events as the Leipzig or Lyons fairs.

MANUFACTURED GOODS.

We will first consider the different ways in which British buyers of goods manufactured abroad may satisfy their requirements :

Direct Buying.—Manufactured goods are comparatively rarely imported without the help of an intermediary who makes foreign trade his special business, because the buyer,

in order to deal advantageously, must be familiar with the names of foreign manufacturers and the goods they produce, and to get served well he must be able to offer them contracts worth executing. This is where the middleman is useful. If he specializes in foreign buying he can offer people at home a good selection, and may even offer delivery from stock, thus saving the small purchaser much trouble.

Exporting commission agents and wholesale merchants here place considerable orders in textiles, fancy goods and hardware direct, ordering to sample or catalogue, or after discussion with travellers. Some of the wholesale houses, and indeed one or two of the large retail firms, send out buyers, and even open up *buying offices* or *agencies* in foreign centres. As this class of buyer deals in large quantities, the trouble and expense of seeking out foreign makers and negotiating with them is worth while. Such methods would not, however, be profitable for a small retailer, and in addition to wasting his time he would in most cases have to send cash with order.

Manufacturers in a small way of business are not usually anxious to export direct at all, but supply to order to local dealers in their own country, who market their goods for them. If wholesalers here wish to deal with such people they have to give them attractive contracts.

Mining, Quarrying, Railway and Factory plant and Constructional Steel-work offer less opportunity to the middleman, as orders are executed to buyer's specification, and the agent's or merchant's work is therefore confined to negotiating between makers and users. Such expensive installations as colliery by-products plants, locomotives and rolling-stock, etc., are important enough to justify special visits of representatives. The foreign works have usually plenty of people familiar with the English language, and the colliery or railway engineers are in most cases as well informed or better, on the technical side, as any manufacturers' agents.

The same remark applies to the Home Trade.

The buyer is not always able to get into direct touch with makers abroad; for the latter in some cases dispose of

the whole of their manufactures through *selling associations* or *syndicates*. And in Belgium, for instance, there are intermediaries calling themselves "brokers," who acquire iron and steel in such quantities as to create a sort of monopoly, forcing buyers to come to them for supplies.

Foreign Manufacturer's Agent in U.K.—One advantage which even engineers have in dealing with an agent in England is that by so doing they have somebody near to claim on if anything goes wrong. An important question in placing contracts with foreign manufacturers is the place where *delivery* and *payment* are to be made.

A German manufacturer at (say) Duisburg, if asked by an English firm to quote for machinery, will probably insert in his tender the words "*Erfullungsort Duisburg*," which means that the contract is to be executed in Duisburg, the goods are at buyer's risk on delivery ex works, and any claims arising out of the contract must be settled in Duisburg, according to German law. In English law every British subject has to be cited before a judge in his own place of residence.

To a foreign manufacturer wishing to develop trade with this country, an agent in a central town is almost a necessity. The agent can employ travellers to canvas buyers, and is as well placed to secure orders as an English maker.

The English agency may be (*a*) an off-shoot or branch of the factory itself, kept in funds by the latter and acting in the name of its principals as agent, or (*b*) an independent firm working under an agency agreement. Of the latter sort most work under their own name, and even register their own trade-mark here. Some work on commission, and others as merchants, selling at their own prices. Many are materially assisted by their principals, who may share the cost of advertising and even travelling, and supply their agents with a stock of goods on consignment.

In any case the agent is fully responsible to customers here for proper execution of contracts—unless he acts in the name of his principal—and is careful, when negotiating

important business, to impose at least as severe conditions on his manufacturers as he has to agree to himself.

By selling under an English name and trade-mark agents sometimes intentionally conceal the origin of the goods they sell. In order to protect British manufactures against the intrusion of foreign makers the **Merchandise Marks Act** was passed in **1887**, which provides that goods arriving at any port in Great Britain, bearing the name of the consignee, a trade name, or marks which infer that they are of British manufacture, and which are not indelibly marked or stamped with the *name of the country of origin*, are stopped by the Customs, and are only released when the required conditions of the Board of Customs are complied with. But the sign **Made in Germany**, etc., is quickly removed, and firms importing machinery and tools may set up a fitting shop in a central manufacturing town to assemble the various parts, some of which are then usually obtained from English makers in order to warrant the goods being sold as British.

PRODUCE.

The quality of manufactured goods is usually identified with the firm supplying them. New inventions are protected by means of patents; manufacturers and wholesale firms commonly brand their goods with trade-marks to make sure that they shall be recognized, whoever may have the selling of them, and large sums are spent in advertising their merits.

Producers of foodstuffs and raw materials must also build up their business on a good reputation; there are good and bad cultivators. But the personal element is not usually of sufficient importance to identify natural produce with its cultivator after he has disposed of it.

Produce is very often identified with its **place of origin**. Thus we speak of Darjeeling, Souchong, Assam, Indian and Ceylon teas, Para rubber, Sumatra tobacco, Valencia pudding raisins; indeed the place of origin is *always* of interest in describing produce. The **quality** or "**grade**" is

ascertained and stipulated between buyer and seller by means of samples, or by other methods which will be explained later.

From Grower to Shipper.—Small cultivators usually sell their produce to local dealers or consign them for sale by brokers at the local or coastal markets. In its journey from the fields to the coast most produce passes through the hands of several intermediaries, each one doing his part in the work of concentration of supplies to the ports and preparation of the produce for shipment.

This concentration of supplies is particularly necessary in dealing with produce which has to be baled for transport to the coast, or undergo other processes which can only be done economically on a large scale—in the butter and bacon factories, slaughter-houses, drysalteries, etc.

All imported produce is thus *concentrated* to the port of shipment, and *distributed* from the port of arrival. And whether the middlemen be independent or united into one company the same system of division of labour prevails.

Shippers and Importers.—The foreign or colonial shippers thus acquire large quantities of produce from various sources, which they forward to importers here and in foreign countries.

Usually the importer receives the goods **on consignment**, *i.e.* for sale by him as agent, for the account of the shipper to whom he renders an **Account Sales** (see p. 361), showing the amount realized by the sale, less expenses incurred on this side and the importer's commission. The difference, viz. the **net proceeds**, is of course payable to his principal, the shipper, after deduction of any documentary bills accepted or amounts otherwise advanced by the importer.

It should not be imagined that the importer, since he is acting as agent, takes no risk; far from it. He is responsible to his principals for payment by buyers here, and since he invariably has to give financial assistance to the shipper he runs the risk of financing an unsuccessful adventure.

The shipper either obtains cash against documents at port of shipment by means of a bank credit arranged by the importer here, or he draws against documents for about 80% of his own valuation of the consignment as shown on the *pro forma* invoice. So the importer must either *pay* or *accept* before he can get possession of the goods, and if the consignment does not realize as much as he has advanced or accepted for on the draft now held by the bank here, he must trust his principals to refund the difference. The difference is called a **shortfall**, and the amount is either withheld from the proceeds of the next consignment or drawn for in a **shortfall draft** sent out through the bank to the consignors for collection.

It is the importer's business to avoid being swindled by mushroom firms thousands of miles away, who are only too anxious to consign him unsaleable stuff, or send him shipments at an exaggerated pro forma valuation On the other hand he must do his level best for really good shippers in order to keep in their favour.

To buyers on this side the importer is of course absolutely responsible for quality and proper execution of contracts, and if buyers do not fulfil their obligations the importer usually claims in his own name, without any mention of his principals overseas, of whom his customers know nothing, and who, particularly those in India and West Africa, very often seem, to our ideas, a quaint and unbusinesslike people.

Principal and Agent.—Though commission agents, both importing and exporting, usually act in their own name, and sue in their own name if necessary, their principals may take legal proceedings into their own hands if they wish to do so. Although, when the contract was made with the buyer or seller here, the latter had no knowledge of the principal's existence, it is quite possible for the agent to step out of the transaction and leave his principal to fight his own battles. But if the principal is unsuccessful he cannot proceed again through his agent. Proceedings may be taken by principal *or* agent, not both.

IMPORT TRANSACTION.

Consignment of Mica from Calcutta to London. Sale through Broker by Private Treaty.

1. The importers in London first receive from their principals in Calcutta the following Advice of Shipment :

(*a*) Calcutta, 30*th April*, 19....

Messrs. J. W. Burch & Co.,
14A Rood Lane,
London, E.C. 3.

Dear Sirs,

Shipment No. 11.

We have much pleasure in sending you herewith the Invoice and Specification for 60 C/s Mica shipped per s.s. *City of Oran*, bound for London.

We have valued this consignment at £423. 6*s*., as will be seen from the specification attached, but we have drawn on you, at customary usance, for £381 only. We recommend the draft, which has been negotiated with the .... .. Bank of India, to your protection.

Please favour us with your brokers' report upon and valuation of this consignment in due course.

Yours faithfully,

For The Eastern Mica Syndicate Ld.,
A. Walwin, *Director.*

(*b*) Proforma Invoice from shippers :

Invoice for 60 *C/s Mica* shipped per s.s. *City of Oran* and consigned to *Messrs. J. W. Burch & Co.*, for sale and realisation on account of the Eastern Mica Syndicate Limited.

Marks and Nos	Particulars		Amount.	
EMS	Aggregate Value of 60 C/s Mica as per Specification attached hereto.		£423	6
London, # 8561/ 8620	E. & O.E. *Calcutta, 26th April, 19....*			

(*c*) Specification :

SPECIFICATION OF EMS London 60 C/s MAHESU MICA.
Per s.s. *City of Oran.*

		Gross	Tare.	Nett		£	s	d
#8561	No. 2 Std. 2nd quality	79¼	12	67¼	at per lb. 8/-	26	18	–
2	,, 4 pt. std.	141	18	123	,, ,, 6/-	36	18	-
3	,, 4 stained	141	18	123	,, ,, 3/8	42	18	11
4	,, 4 ,,	129¼	18	111¼				
5	,, 5 clear	141	18	123	,, ,, 4/2	25	12	6
		(*Continued*).						
#8616	,, 6 pt. std.	142	19	123	,, ,, 1/-	12	7	–
7	,, 6 ,,	143	19	124				
8	,, 6 stained	141	18	123	,, ,, /9	14	–	6
9	,, 6 stained	142	17	125				
20	,, 6 stained	141	15	126				
					£	423	6	–

Calcutta 26*th April*, 19. .

2. On receiving advice of shipment, Messrs. Burch's next move is to look in the "Shipping Intelligence" column of the daily paper, or else ring up the shipowners or their agents, to ascertain when the steamer is expected to arrive in London, and where she will be "berthing." We will assume that she is expected to unload at Victoria Dock on the following Saturday morning, the 12th June.

3. In the meantime Consignees receive from the London office of the Indian bank the following letter advising draft :

(*a*) DEAR SIRS,

We beg to inform you that we hold a draft as per particulars at foot, which we propose to present and on your acceptance of which the relative documents will be surrendered to you.

Draft No. 1143.
Date : 29th April, 19....
at 3 m/s.
Drawers : The Eastern Mica Syndicate, Ltd.
Amount : £381.

(*b*) The Draft:

No. 114. £381 :—:—

Calcutta, *29th April, 19....*

Indian Stamp Duty on arrival 2/-

Three months after sight of the *First* of Exchange (*Second* and .... of same tenor and date being unpaid), Pay to *the* Order *of the Bank of India, Ltd.*, the sum of *Three hundred and eighty-one pounds*—Value received *in* 60 *C/s Mica per s.s. "City of Oran."*

To *Messrs. J. W. Burch & Co.*,

For and on behalf of

THE EASTERN MICA SYNDICATE, LTD.

A. Walwin, Director.

F. Sykes, Secretary.

(*c*) The Importers accept the draft as follows:

Accepted
8th June, 19....
Payable at Barclays' Bank,
Fenchurch St., E.C.,
J. W. Burch & Co.

In due course a messenger calls for the accepted draft, and hands over the documents in exchange.

3. The Bill of Lading contains the following particulars:

Consignees:...... .... Order........

MARGIN:

London # 8561/8620
60 C/s Mica to weigh 3 t. 14 c. 3 q. 7 lb.
305/- per ton £57 0*s*. 11*d*.
Exchange: 2/3¼ Rs. 504 11a. 10p.

(*a*) Freight Calculation:

Tons.	cwt.	qrs.	lbs.		£	*s*.	*d*.
3	–	–	–	@ 305/-	45	15	–
	10	–	–	per ton	7	12	6
	4	–	–		3	1	–
		2	–			7	7½
		1	–			3	9¾
			7				11½
3 :	14 :	3 :	7		57	–	11

(*b*) **Exchange Calculation :**

£57. 0*s*. 11*d*. at 2/3⅛ per rupee = The number of pence in £57 0*s*. 11*d*. divided by the number of pence in 2/3⅛ (one rupee)

$$= \text{Rs. } \frac{13691}{27\frac{1}{8}} = \text{Rs. } \frac{13691 \times 8}{217} = \text{Rs. } 504 \text{ 11a. 10p.}$$

WORKING.

£57 0 11
20
1140 shillings
12
13691 pence
8
217) 109528 eighths (504 rupees
1028
160
16
960
160
217) 2560 (11 annas
390
173
12
217) 2076 (10 pies

PROOF.

Rs.	a.	p.		£	s.	d.
504			@ 2/-	50	8	0
			/3	6	6	0
			0⅛		5	3
			@ 2/3⅛	56	19	3
	8		,, 2/3⅛		1	1½
	2					3½
	1					1¾
		10				1¼
504	11	10	@ 2/3⅛	57	0	11

4. The Marine Insurance Policy, issued to the Shippers by the Calcutta office of a London insurance company, covers the amount of the invoice plus 10%, and expressed in rupees.

Calculation. £423. 3*s*. at 2/3⅛ = Rs. 3745 roughly.
Add 10% 374½

Insure for (say) Rupees 4120

Particulars inserted in the Policy.

Rs. 4120.

	Rs.		
Premium $\frac{9}{16}$%	23	12	10
Stamp			5
	23	7	10

Calcutta to London until safely stored where goods are destined for warehousing.

EMS
London

8561/8620
60 C/s Mica.

(*Printed in Margin.*)

Unless otherwise stated in writing, the subject matter of this insurance is warranted free from all Average unless the vessel or craft be stranded, sunk, or

burnt, but the insurers are to pay the insured value of any package or packages which may be totally lost in loading, transhipment or discharge, also any loss or damage to the interest insured which may be reasonably attributed to fire, collision or contact of the vessel and/or craft and/or conveyance with any external substance (ice excluded) other than water, or to discharge of cargo at a port of distress, and also to pay landing, warehousing, forwarding and special charges, if incurred.

Grounding or Stranding in Canals, Harbours or Tidal Rivers not to be deemed a strand, but the Company shall pay for any loss to the interest insured which may be reasonably attributed thereto

Warranted free of Capture, Seizure, Arrest, Restraint or Detainment and the consequences thereof or of any attempt thereat (piracy excepted), and also from all consequences of hostilities or warlike operations, whether before or after declaration of war

Warranted free of loss or damage caused by strikes, lockouts, workmen or persons taking part in labour disturbances or riots or civil commotions

General Average and Salvage clauses payable according to foreign statement or York/Antwerp rules if in accordance with the contract of affreightment

Held covered at a premium to be arranged in case of deviation or change of voyage or any omission or error in the description of the interest, vessel or voyage

SPECIAL CONDITIONS.

FOR FREIGHT

Including risk of craft and/or lighter to and from the ship, which craft and/or lighter to be deemed a separate insurance if desired by the Insured.

FOR CARGO

Including (subject to the terms of the Policy) all risks covered by this Policy, from Shippers' or Manufacturers' warehouse until on board the vessel, during transhipment if any, and from the vessel whilst on quays, wharves or any sheds during the ordinary course of transit until safely deposited in Consignees' or other warehouse at destination name in Policy

Including risk of craft, raft and/or lighter to and from the vessel Each craft, raft and/or lighter to be deemed a separate insurance The Insured are not to be prejudiced by the negligence clause and/or latent defects clause in the bills of lading and/or charter-party The seaworthiness of the vessel as between assured and assurers is hereby admitted

It is hereby agreed by the assured that in the event of loss or damage, notice prior to the survey shall be given to THE MANAGER or Lloyd's Agent

---

The adjustment of all losses and other matters relating to this Insurance shall be made agreeable to the tenor of this Policy and the established Practice

All policies issued abroad and made payable in the United Kingdom are required by law to have a Government Stamp affixed within ten days after date of arrival in the United Kingdom.

The insurance policy is endorsed by the importers if they wish to make a claim.

5. The Importers are now able to take possession of the Consignment, and dispose of it on behalf of their principals in Calcutta.

Some importers attend to the landing and selling of the goods themselves; but in this case Messrs. J. W. Burch & Co. employ a firm of Brokers to arrange for the landing and warehousing of the goods, find buyers and arrange the sales.

The B/L having been endorsed by the Bank *and* by the

Importers, the latter take it to the office of the shipping company for release, and hand it, with the following letter, to the brokers.

London, 9*th June*, 19....

Messrs. E. W. Cullum & Partners,
80 The Minories,
Aldgate, E. 1.

DEAR SIRS,

We enclose herewith bill of lading for 60 C/s Mica per s.s. "City of Oran" from Calcutta, which we request you to please receive for us on arrival. We understand from the shipping company that the steamer is due to arrive on or about the 11th inst. at Victoria Dock.

Please let us have your report and valuation at the earliest possible moment.

Yours faithfully,

J. W. BURCH & CO.

6. As the steamer is to arrive at the Victoria Docks, the mica could be landed there, and warehoused with the P.L.A. until sold. The brokers prefer, however, to have the goods at a riverside wharf specially devoted to this class of merchandise. Lighters are sent down to the docks to fetch the cases *overside*, and the wharfinger makes the necessary customs entry (p. 251), pays the port rate, weighs, tares and opens the cases for inspection, takes samples, allows the brokers' men to come and make their valuation, and assists generally in preparing the goods for sale.

7. The Broker's **Report and Valuation** is drawn up in a manner similar to that shown for the specification, the brokers adding a criticism of the quality of the merchandise, present prospects of sale, and probable values. The prices he names are not binding on anybody; they are merely conjecture. But the broker's opinion is valuable, as no one knows better than he what the goods are worth.

Should the estimate shown in the broker's Valuation be much lower than those shown in the shipper's proforma invoice, the importers might decide to abstain from selling for the present, in the hope of an improvement in prices. Or they might consult with their principals by cable or otherwise, and fix **Reserve Prices** below which the broker must not sell.

8. The **Wharfinger** invoices his services to the Broker, to whom he also looks for payment.

Jacob's Wharf, *31st Aug.*, 19....

Messrs. E. W. Cullum & Partners.

Dr. to W. W. JACOBS & SONS.

W. W. JACOBS & SONS will not be liable for any delay, loss of or damage to goods entrusted to or handled by them, whether or not arising from the negligence or wrongful acts of their servants, agents, or anyone, which can be recovered by insurance, nor from any expenses or loss arising from strikes, combinations or labour disturbances

W. W. JACOBS & SONS are not lightermen, but without liability arrange for the lighterage of goods to and from their warehouses under the terms of the London Lighterage Clause

For Merchants' protection, every Insurance Policy should contain the clause "Without recourse to Wharfingers or Lightermen"

Cheques to be crossed "London County Westminster & Parr's Bank." No receipts are recognized except on printed forms.

192....

June 21. E M S London ‡ 8576/82, 8565. 8 C/s Mica.

				£	s.	d.
,,	24.	Opening for inspection, attendance and nailing			1	6
,,	28.	Rent 4 weeks 8576/82 7 C/s	c qr lbs. 8 2 18 at 8*d*. per ton		1	2
,,	27.	,, 4 ,, 8565 1 C/	c qr lbs 1 1 1 at 8d. per ton			2
					2	10
			10%			3
					2	7
		Increase pending revision of rates	- $7\frac{1}{2}$%			2
		War increase - - - - -	- 65%		1	10
					4	7

Messrs. E. W. Cullum & Partners (Continued).

192....		£	s.	d.
June 21.	8561/8620 60 C/S Mica			
	c qr. lb Landing rate on 75 – 24 at 6*d.* per cwt.	1	17	7
	Customs examination - - - - -		4	–
	Opening 13 C/s, Unpacking and Weighing 8 C/s, Repacking and Nailing - -	1	4	7
	Samples 11 at 4*d.*, 1 at 6*d.* - - -		4	2
	Checking and settling tares 52 C/s at 2*d.*, 8/8, Coopering and Materials 4/3 - -		12	11
July 4.	Attendance, inspection 8 C/s.			
,, 6.	,, ,, 3 C/s at 4*d.* - -		3	8
	Port Rate Paid - - -		3	2
,, 30.	Rent 6 weeks 8583/620 38 C/s c qr. lb. 48 – 20 at 8*d.* per ton		9	7
Aug. 7.	,, 7 ,, 8563/4 2 C/s c qr lb 2 1 17 at 8*d.* per ton			7
,, 22.	Opening for inspection, attendance and Nailing 1 C/ - - - - - -		1	6
,, 31.	Rent 11 weeks 8562, 8566/8 4 C/s c qr lb 5 – 16 - -		1	10
,, ,,	,, 11 ,, 8561, 8565, 8569/82, 16 C/s c qr lb 19 2 9 - -		7	2
		5	10	9
	10% on total, less Port Rate, £5 7 7		10	9
		5	0	0
	7½% on 4 16 10	0	7	3
	65% ,, 5 4 1	3	7	8
		8	14	11
	Brought forward - - -		4	7
		£8	19	6

Wharfage Charges and all other disbursements made by the broker are eventually charged up by him to the Importer.

9. After each sale has been effected, the broker sends an Invoice to the Buyer, and an

10. Account Sales to the Importer, with vouchers attached for any disbursements he may have incurred.

BROKER'S A/S.

Account Sales of 3 C/s Mica ex s.s. "City of Oran" from Calcutta sold on 5th July, 19 .. by order and for account of Messrs. J. W. Burch & Co.

		£	s.	d.
E M S LONDON ♯ 2562	1 C/s weighing nett lbs 123 draft 2			
	121 at 7/-	42	7	–
63/4	2 C/s weighing nett 234 dft. 3			
	231 ,, 5/3	60	12	9
		102	19	9
	Fire Insurance 15 – Brokerage 2% 2 1 3	2	16	3
		100	3	6
	Prompt 10 *Aug.* 19. *London* 9 *Aug.* 19. .			

11. When the bulk of the consignment has been disposed of the importer collects all the brokers' A/S, together with vouchers relative to the shipment, such as Wharfinger's Invoice, etc., and sends them out to his principals with his own Account Sales.

IMPORTER'S A/S TO CALCUTTA.

Account Sales of 60 C/s Mahesu Mica Shipment No. 11 per s.s. "City of Oran" from Calcutta, sold and realized for account of The Eastern Mica Syndicate, Limited.

		£	s.	d.	£	s.	d.
E.M.S	60 C/s Mica						
London	No. 8561 Not sold						
	Nos. 8562/8620 59 C/s Net Weights as per copies of A/S attached hereto, at 7/-; 5/3; 4/10; 1/9; 1/7½; 1/1; 10*d*. respectively as shown				469	6	–
	Charges.						
	Landing, etc.	8	19	6			
	Fire Insurance 2/6%		18	4			
	Petties		11	9			
	Brokerage 2%	9	7	8			
	Commission	4	13	10	24	11	1
					444	14	11
	Your draft against above				381	–	–
					63	14	11
	E. & O.E. *Calcutta, 2nd September,* 19 ...						

It has already been stated that a commission agent is legally a "factor." If he is unfaithful or negligent in the performance of his duties his principal can sue him for damages; but the principal cannot undo the contracts which his agent has made, though they may have been made without his consent.

Firm Orders.—By no means all produce is imported on a consignment basis. Large quantities of foodstuffs and

much raw material are imported against "firm orders" by the importer, or **by contract**. Even regular commission agents, when prices have an upward tendency, naturally prefer if they can to buy outright, and thus get a bigger profit than the mere percentage allowed by shippers on consignments. The importer may then be termed a **Merchant**.

Direct Trading.—The services rendered by the importer as an intermediary between the home buyer and the overseas shipper are of great value. Through the market organization, with its brokers and importers, the wholesale merchant or user can obtain just what he wants at the right moment, and at competitive, current prices. On the other hand the importing produce agent is on the spot to protect his foreign shippers interests, he guarantees payment to them, and usually helps them to pay their way by means of advances against shipments.

Direct trading between producer and consumer is very rare, but that it does sometimes take place has been explained elsewhere [1]

In the case of cotton, for instance, there are spinners who place contracts with growers direct; but in the cotton trade direct trading more frequently takes the form of dealings with a shipper at an American cotton port, or with an American agent in Liverpool.

Producers' Office in U.K.—There is an increasing tendency among large growers abroad to appoint representatives in European centres. The economy of the usual machinery of the market or exchange, served by commission agents and brokers, can hardly be improved; but the producer who sets up an office in London or Antwerp does so with the intention of pushing his way past intermediaries, who really have no more interest in him than in any other producer from whose consignments they might do equally well.

[1] *Principles and Practice of Business*, p. 27.

For example, Brazilian coffee is sold to a great extent by Brazilian agents in Europe, who submit "standard samples" of the coming crop, and are able, by means of cable communication with their principals, to offer and sell "off the coast" or for future shipment between stated dates. Much grain and cotton is sold in a similar manner.

The producer's representative, like the independent commission agent, may sell partly by private treaty with buyers direct, or through the market organization.

Some of the large European import firms are themselves producers, and many, purely trading companies, buy through their branches in foreign centres and ship the produce to Europe. The old East India Company and the present day Hudson Bay Company are notable examples. In a very few cases the same firm produces, ships, imports and distributes to the general public—as, for example, Liptons, who have tea plantations in Ceylon and retail shops throughout the United Kingdom. The Co-operative Wholesale Society, Ltd., is the biggest organization of this kind in the world, but the co-operative retail shops, although members of the C.W.S., are not under the same management. Its business is not confined to planting, but extends to almost every branch of industry.

EXAMPLE OF PRODUCING AND IMPORTING ORGANIZATION.

The following outline of the trade in North African esparto grass, though not describing the organization of any one firm in particular, will serve as an example of what has been said in the last paragraph :

The companies concerned in this trade are of different nationalities—French, British, Italian—but we will here study the organization of a typical firm, having one office in London, another in Paris, and branches at five or six of the North-African coastal ports. The principal part of the business consists of shipping cargoes of esparto grass to the English and Scotch paper manufacturers, the finest paper

being made of this material; but the firm's dealings may extend to Algerian palm fibres, olive and geranium oil, carpets, curios, etc., and even minerals.

Esparto grass grows wild on the hills of Morocco, Algeria, Tunis, and Tripoli, and is torn up by Arabs during the intervals between the harvests, when they have little else to do.

Throughout the interior the Company has erected *Collecting Stations* or "*Chantiers*,' each consisting of a weighing machine, a stack of grass (with or without a shed to cover it), and a man in charge. As the Arabs pluck the grass they bring it to the chantiers, the man in charge weighs it, and the native receives the value in coin (say five or six francs per 100 kilos).

At the chantiers the grass is tied up in sheaves, or consigned quite loose by train to the nearest *Baling Station*, which may be at one of the seaports, or at another chantier in the interior within easy railway communication of the others. It is there that the grass is compressed by means of horse-driven mechanical baling presses, or, at the more important centres, *hydraulic presses*, and bound with iron hoops. The bales are made as small as possible to reduce the cost of carriage and freight, as before baling the grass is very bulky, and a high rate per ton is charged for its transport on that account.

The baled grass is stored pending shipment in the Company's Warehouses at the different seaports—Oran, Algiers, Bizerta, Susa, Sfax, Gabès, and other towns—where the Company also have branch offices under responsible management.

The whole system in North Africa is under the supervision of the Manager of the Algiers branch, and the various centres are kept in funds by cable transfers through the French banks in London.

The London Office is kept advised of the amount of stock at each port, and receives detailed reports on printed columnar sheets showing the quantities available at each "chantier" in the interior, the prices paid, and the rate at which supplies are forthcoming. The officials in London can judge from these reports how much grass they can sell for shipment from each port.

The London Office is assisted on the selling side of the business by a *Fibre Broker*, who for a commission of 1¼–1½% arranges contracts with the paper manufacturers, and does a

great deal of work connected with the unloading of the steamers as they arrive laden with grass.

In the busy season the broker calls frequently at the office of the Company to inquire how much can be disposed of at each port, and for Jan./Feb., or Feb./Mar. shipment, etc. He

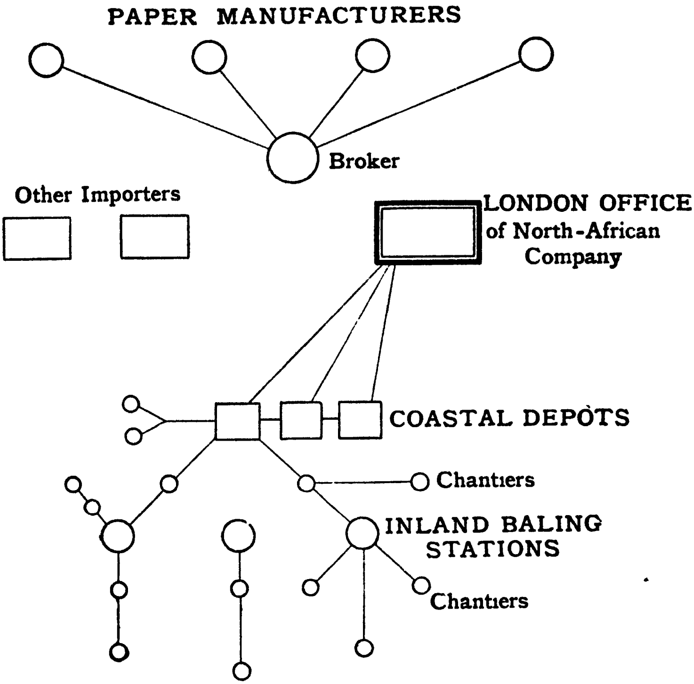


FIG. 39.—ORGANIZATION OF IMPORT TRADE IN NORTH-AFRICAN PRODUCE.

does his best to fit in his buyers' requirements with the esparto companies' ability to meet them. All contracts are for *Forward Delivery*, as the paper manufacturers want to know well beforehand how much their material is going to cost, and to ensure adequate supplies as and when they are needed.

The broker makes the contract of sale, the essentials of which he copies on two Contract Notes, one of which (called a **Bought Note**) he sends to the buyer, and another (called a **Sold Note**) to the seller.

BROKER'S SOLD NOTE.

Telephone: Ave. 43011.
Telegrams: Fibrillate, London-Fen.

North-African Concessions, Limited.

DEAR SIRS,

We have this day sold for your account to *The Forst Paper Co., Garston,* subject to the conditions stated hereunder

1000/1200· (One thousand to Twelve hundred) tons Algerian Esparto Grass (ten per cent. more or less as may be declared) for January/February shipment at the rate of £9 15s. (Nine pounds fifteen shillings) per ton landing weights, such price to include cost and freight to Garston Dock and Insurance against all risks until safely stored at Buyers' warehouse.

Terms: *Payment in full to be made in Buyers' Acceptance at three months' date from the tenth day after the goods are landed.*

Macfarlane and Judd,
London, 15th October, 19.... Brokers.

As each contract is made a suitable steamer has to be chartered to call at the port or ports on the African coast from which the shipment will be made. The charters are arranged by a Shipbroker, as many of the steamers employed on this trade belong to French, Norwegian or Spanish companies.

The shipments are insured under a Floating Policy, each shipload being declared immediately after loading, on receipt of telegraphic advice from the North-African branches.

The Importer and the Markets.—Most commodities can be obtained from more than one source, and it is the importer's business, whether he is working for a commission or on his own account, to seek out the best sources of supply, and regulate arrivals to suit his financial resources and the demand for goods.

He therefore needs to be in constant touch with every market of interest to him the world over. Current prices on different centres are compared, and information gleaned from all possible sources—newspaper reports, telegraphic exchange quotations, business circulars from shippers'

agents on this side, and special reports by mail or cable from the merchant's own correspondents or agents in foreign markets. Nor are *current* prices everything. The *tendency* of the markets, the weather conditions and prospects of good or bad crops, extent of stocks ready for shipment, weekly reports of arrivals and shipments are all of importance in guiding the merchant in his purchases. If he can get his correspondents to tell him to what firms and destinations the shipments have been made, so much the better.

Not less in importance from the merchant importer's standpoint is the condition of the freight market. Rates from equally distant ports often differ widely, and in placing contracts a rising or falling freight market may make or mar the prospects of profitable business. If the goods are bought f.o.b. the shipper completes his part of the contract by putting the goods on board, and if the buyer takes delivery in the interior or on arrival at a coast town he may run not only the risk of high freights but even that of not being able to find suitable tonnage at all for a long time. If payment is otherwise than in sterling the rates of exchange may alter matters, particularly where a silver or paper currency obtains on the centre in question, and if he finances his operations through the banks, the discount market here and at port of shipment will come into the calculation too.

So it is not easy to reckon exactly how much per lb. or cwt. certain produce will cost the merchant by the time it arrives in the warehouse in England, and the matter is rendered more complex by the difficulty of obtaining much of the data required to complete the calculation.

The produce merchant, *i.e.* the man who buys and sells produce outright in large quantities, and at his own risk, must have money and much ability His qualifications might be summarized as follows .—

(*a*) He must have a good knowledge of the produce he is handling—although he is usually assisted on the technical side by agents and brokers ;

(*b*) His market is the World Market, and it is his business to keep in touch with and make the best of it, combining local prices with freight rates and all relevant matters.

(c) He must be a clever financier, in order to make the most of his resources without wrecking the business by excessive commitments.

Exercise 13.

1. (a) Make out an A/S for 60 C/ Manchester Goods per s.s. "Persian Duke" sold on account of John Johns & Co., of Manchester, by Masters & Patel, Merchants and Agents, Bombay.

Proceeds are: 20 C/ at £40; 30 C/ at £25; 10 C/ at £20; Consignees' expenses, etc., are: Landing Charges, £7; Storage £19; Fire Insurance £1800 at 4/- %; Commission 2½%; Del Credere 1%; Expenses £3; Auction Expenses, 10 C/ at 5/-. (U.E.I.cc.Adv.)

(b) What is meant by "del credere"?

2. How are manufactured goods imported from abroad? Give reasons for the procedure you mention, and differentiate between goods required for retail distribution and industrial plant.

3. A Sheffield firm wish to buy machinery from a Swedish factory having an agent in London. Should the firm deal with the agent or direct with manufacturers? Give full reasons for your opinions.

4. Some foreign manufacturers have a branch office or agency in the U.K. Describe what you consider might be the constitution and functions of such a branch or agent, and the advantages the makers expect to derive from being represented here.

5. Contrast the methods and machinery of buying and selling (a) raw materials, (b) manufactured goods. (U.L.C.tpc.3.)

6. What is the difference between importing on a consignment basis, and importing against firm orders? And what is meant by a shortfall?

7. What is an Account Sales? What would you expect to find under the head of "Charges" in such a document? Figures need not be given. (D.C.C.II.)

8. Describe the function of the importing produce agent, and the manner in which he earns his living and justifies his existence.

9. What advantage might a foreign or colonial shipper of produce derive from the establishment of an office in London

or Liverpool ? Under what circumstances would you consider such an arrangement inadvisable ?

10. Describe in outline only the organisation of a company combining the functions of producing and importing.

11. (*a*) What special qualifications does an importing produce merchant require in order to carry on his business successfully ?

(*b*) Show how the import merchant's dealings may be influenced by (*a*) the freight market, (*b*) rates of exchange, and (*c*) the discount market.

12. Calculate (*a*) the freight on 5 C/s ea. 3′ × 2′ 6″ × 4′ 6″ at 35/- per ton meast. plus 10% primage ; (*b*) Insurance premium on £350 at 12/- ‰ ; and (*c*) Value in rupees of £10 10*s*. 5*d*. at 1/3$\frac{1}{16}$ per rupee.

CHAPTER XIV.

THE PRODUCE MARKETS

Primitive Markets.—The oldest form of produce Market, as a meeting-place for buyers and sellers, is the **Fair.** To most English people the word "fair" evokes memories of the roundabout and coconut-shy. Modern methods of communication have provided other outlets for trade, and the fair as a commercial function has become, in this country, insignificant.

In Asia and Eastern Europe, however, the fairs are still important centres of trade, and attract buyers from all parts of the world In the East great fairs, such as those held at Mecca in Arabia and Allahabad in India, are found to coincide with religious festivals. Before the revolution in Russia the fairs of Nizhni-Novgorod, Poltava, and Kharkov, which were held annually, witnessed the exchange of enormous quantities of produce and manufactured goods. The Nizhni fair was the most important, and served as a market for Russian and foreign goods, notably textiles, hardware, furs and cereals.

The fairs of Leipzig (Saxony) and Lyons (France), which are organized on modern methods, should be considered more as **industrial exhibitions** than as fairs. Hundreds of different branches of industry are represented, and the fairs attract thousands of exhibitors and buyers from all parts of the world. Leipzig Fair is an important centre for furs

Sale of Imports.—Importers of Foodstuffs and the Raw Materials of industry distribute their produce, to the wholesalers or users respectively, through the following channels:—

Either

INDEPENDENTLY OF THE MARKET

1. To buyers' direct.
2. Through the agency of Brokers, who arrange sales by private treaty.

ON THE MARKET.

1. By personal dealing between buyers and sellers, the goods being brought on the market *in bulk* (*e.g.* vegetables, fruit, meat, fish, livestock), *or*

   By Dutch Auction (*e.g.* fish).

   By Auction, the goods being stored elsewhere, and buyers given an opportunity of inspecting the bulk or samples taken from the bulk (*e.g.* wool, grocery, hides, etc.

3. By personal dealing between buyers and sellers, the goods being stored elsewhere or deliverable at some future time. Quality ascertained by sample, type, grade, or description (*e.g.* grain, cotton, iron, provisions, coal).

All sorts of commodities are sold by private negotiation, but the importer's preference for the use of the centralized markets, as well as the nature of the market dealings, depends in each case upon his particular business connections and the class of goods which he has to sell.

Whether goods are sold on the market or otherwise, the world's produce always gravitates to the great centres of distribution, such as London, Liverpool, Antwerp, Hamburg, Le Hâvre, Marseilles, Genoa, etc., and in most produce trades importers, whether they sell on the market or not, engage the services of a **broker** to place their consignments as they arrive. In some trades buyers appoint brokers to buy for them.

Utility of the Market. It has been seen that the methods usually applied to the sale of manufactured goods, viz. advertisement, inquiry, quotation, etc., would be too costly and too slow for large-scale dealings in natural produce,

the quality of which is readily ascertained, and is not usually identified in any way with the producer, shipper or importer.

Concentration of supply and demand on the central markets enables buyers to get quickly suited as to quality, quantity, and time of delivery, and to buy at competitive prices. For the seller the market and the brokers attached to it provide facilities for economical handling and disposal which can hardly be dispensed with. Outside the market the importer would find it difficult to compete with market rates, for his own prices would have to include a bigger margin for charges, such as the cost of advertising and canvassing, and the regular maintenance of a trained staff to do only occasionally (as consignments arrive) what the broker undertakes for a small percentage.

The Auction Sales.—Though furniture and other manufactured goods when sold by auction are usually deposited in the sale room, the public sales of Produce comprise such large quantities that this arrangement would be inconvenient, and for economy in transport it is preferable to leave the goods at the docks or wharves until sold.

The goods are usually put up for sale in "**lots**," and each lot is deemed to be the subject of a separate contract of sale.

The auctioneer circulates a **Sale Catalogue** among likely buyers, showing the number and a brief description of each lot. Buyers have an opportunity of inspecting the goods before the sale, either

(*a*) by means of *samples* or *show cases* exhibited in the sale room or in the broker's or importer's sample rooms; or
(*b*) *in bulk* at the dock, wharf or warehouse where the merchandise has been landed or stored.

The Auctioneer is usually the same person as the broker, for produce brokers who specialize in merchandise sold in this way are in most cases **licensed auctioneers**, and conduct the sale themselves. The licence costs £10 per annum, and expires on the 5th July; it has to be renewed at least ten days before expiration.

The Sales are organized by associations of brokers and dealers, who together support the sales rooms they use and pay subscriptions. The rules printed on the first page of the catalogues here reproduced should be carefully read and understood.

EXAMPLE OF SALE BY AUCTION.

Import and disposal of Consignment of Hides from South Africa.

NOTE.—*Hides are not always imported "on consignment"; some of the biggest Colonial shippers have agents at the Continental ports or sell direct.*

Messrs. Woodhouse & Hamilton, a London firm of importers and exporters, have arranged to receive consignments of South African Hides for sale on commission for the account of their principals, Messrs. Alex. Black & Co., of Capetown.

1. The usual advice of shipment is sent to London from Capetown on the 5th March, 19.., together with a *proforma invoice* and the following

SPECIFICATION OF 82 B[1]=3325 HIDES

per s.s. "Clan MacArthur" for sale by Messrs. Woodhouse & Hamilton for account of ALEXANDER BLACK & Co.

Marks & Nos.	Bales	Hides	t	c	q	lb	Description	per lb	£	s	d	lbs. Avge.
London & W H								*d*				
# 1/20	20	400	3	11	1	21	Best Heavy dry	23	766	5	3	20
21/30	10	200	1	15	2	21	2nd ,, ,,	22	466	1	2	20
31/35	5	150	1	17	2	–	Best Ex h dry	20	350	–	–	28
35/40	5	75		18	3	-	2nd ,, ,,	20	175	–	–	28
41/45	5	150		16	–	7	Best Light	20	149	18	4	12
46/50	5	150		16	–	7	2nd ,,	18	134	18	6	12
51/55	5	500		15	2	14	Best Calf	24	175	–	–	3½
56/60	5	500	1	2	1	7	2nd ,,	20	208	5	–	5
61/62	2	200		8	3	21	3rd ,, and Kips	13	54	4	5	5
63/65	5	350	1	5	–	–	Best Kips	23	291	3	4	8
68/72	5	350	1	5	–	–	2nd ,,	20	233	6	8	8
73/77	5	150	1	1	1	21	Third dry	15	150	1	3	16
78/82	5	150	1	1	1	14	Fourth dry	11	109	14	6	16
	82	3,325	16	15	–	21			3,263	18	5	

Capetown 5th March,

2. The documentary draft having been duly presented by the Union Bank of South Africa, Ltd., and accepted by Messrs. W. & H., the latter obtain possession of the Shipping Documents.

3. The B/L is duly released and handed to a firm of *Hide Brokers.* If the hides are to be brought to a wharf (many brokers have their own wharves), it is arranged that the barge be alongside the vessel on arrival or within twenty-four hours to take delivery overside, and obviate the necessity for landing at the docks, which would mean double landing charges.

4. When the lighters arrive at the wharf, the wharfinger weighs them, places any damaged bales on one side, and also prepares a Landing A/c (see p. 269). One copy of the landing account is sent to the brokers, and another to the importers.

5. The broker's men afterwards look over the hides, sort them, if necessary, according to thickness and quality, and then send in their Report and Valuation.

6. Having decided to sell, Messrs. W. & H. ask the brokers to include the lots in their next Sale Catalogue. This does not necessarily mean that the hides will be sold by public auction; having circulated the catalogue among likely buyers, the broker may dispose of several "lots" by private treaty.

7. The buyers consist of Tanners, or the Buying Brokers acting for them, and people called Hide Factors or Hide Merchants, of whom a few buy for the tanners on commission as agents, but most buy for their own account as merchants, with a view to re-selling to the tanners at a profit.

In isolated cases a "Hide and Leather Factor" may supply the tanner with hides, and market his leather for him.

Whereas the broker arranges the consignments in lots of assortment and quantity suitable to large buyers, the "factor" earns his living by dividing the lots and supplying the tanners with just what they want at the right price. By devoting all his time to inspecting available stocks and assorting qualities, the factor is able to render the tanners good service for but a small commission or margin of profit; for his labour is remunerated not by one firm only, but by many.

A shortage of hides, or any other kind of produce for that matter, naturally gives the merchant an opportunity to monopolize supplies and sell when prices have reached a high level.

The Contract.—At the sale, as each buyer has a lot knocked down to him he makes a mark in his catalogue,

CATALOGUE OF HIDES.

ORDER OF SALES. A. HIDE & CO.

1.— 3.— PUBLIC SALE

2.— 4.— AT THE

LONDON COMMERCIAL SALE ROOMS, MINCING LANE,

On Thursday, November 21st, 19. ., at Half-past Ten o'clock,

The following Goods, viz.:

476 China Buffalo Hides.
708 Bags Bark.

2,901 Salted Cape Ox & Cow Hides.
2.234 Dry & Drysalted Cape Hides.
295 Dry China Ox & Cow Hides.
2,398 Dry Mombasa Hides.
1,181 Dry Brazilian Hides.
2,300 Drysalted East India Ox & Cow Hides.

On Thursday, November 21st, 19 ., at Two o'clock precisely.

35,676 Tanned East India Hides.
223 Packages Shoulders, &c.
1,200 Home Tanned Basils.

Prompt—December 5th, 19 .

No Discount.

I —The highest bidder in due time shall be deemed the buyer, who shall then and there declare his name and residence, and pay a deposit of 20 per cent , if required, in part of payment and the customary lot money to the Brokers to bind the bargain The vendor reserves the right to bid by himself or his agents, or to alter, vary, or withdraw any lot or lots before or during the sale

II —The Goods to be taken with all faults and defects or errors of description as they are lotted, and to be cleared away on or before the Prompt Day, and the remainder of the purchase-money with a brokerage of ½ per cent , to be paid by the buyer, whether brokers or not, into the hands of the Selling Brokers, on receiving the Order for the delivery of the Goods, or on the Prompt Day (at the option of the Selling Brokers); and the re-weighing, recounting, or delivery of part not to be considered a delivery of the whole

III —If any of the lots remain uncleared after the expiration of the Prompt Day, the deposit money to be forfeited to the Sellers, who may at any time re-sell the Goods by Public or Private Sales , the loss, if any, with interest of money, risk of fire, warehouse rent, and all charges incurred by the re-sale, to be made good by the purchasers at the present sale

IV.—The Goods to be at the risk of the Sellers until delivered from the Warehouse or until 6 p m on the Saturday next following the Prompt Day, whichever may first happen , and in case of loss by fire, the Sellers to be liable for the sale value only. No allowance of interest or any payments made prior to the prompt All Warehouse charges to be paid by the Buyer from the Prompt Day.

V --In the event of any lot being claimed by two or more bidders, the same shall be put up again ; if neither of the parties will advance, the question (and any other dispute that may arise during the sale) shall be settled by shew of hands or left to the decision of the Selling Brokers

EXTRACT FROM HIDES CATALOGUES.

PROMPT.—In cases where proper application has been made by the buyers for delivery within the period of the prompt and the Warehouse Keepers have failed to deliver, then the goods are to remain at Sellers' risk and expense until delivery be made. Payment to be made on the prompt day.

It is particularly requested by the Selling Brokers that the Buyers will examine the Bulk or Piles from which these Samples are taken.

Raw Hides sold on c.i.f. terms can be taken either at landing or re-weight at Buyers' option. The re-weights to be ascertained at Buyers' expense, and the option to be exercised within 2 days of purchase.

2,234 DRY AND DRYSALTED CAPE OX AND COW HIDES.
At per lb.—To advance $\frac{1}{8}$d.
On c.i.f. Terms.—Landing Weights.
Tare on the basis of 10% Tared.
At Griffin's Wharf, Morgans Lane, Tooley-street.
Per "Umvuma" @ Cape.

F C
D 11 Bales. 240 Hides

				lbs. each.
Lot 19	67	1 Bale	32 II Heavy	avg $16\frac{7}{8}$
20	65/6	2	43 I Extra Heavy	,, $24\frac{1}{2}$

2,300 DRYSALTED EAST INDIA OX AND COW HIDES.
At per lb.—To advance $\frac{1}{8}$d.
On c.i.f. Terms.—Re-weights.
Samples at Griffin's Wharf, Morgans Lane, Tooley-street.
Per "Mongara" @ Calcutta.

R B R C
K 10 Bales. 2,000 Hides.

Lot 72 7346 1 Bale (representing 10 Bales) Shipping avg. 5

Bulk lying at West India Docks.

35,676 TANNED E.I. HIDES.
At per lb.—To advance $\frac{1}{4}$d.
Delivered Free to Van.—No Draft or Discount.
At Griffin's Wharf, Morgans Lane, Tooley-street.
Ex "Steamer."

N/M 6 Bales. 309 Hides.

			lbs. each.
Lot 75	50 Small.	average	$4\frac{3}{4}$
76	148 Light.	,,	$5\frac{1}{8}$

and the auctioneer's clerk does the same in his. The auctioneer is well acquainted with most buyers, casual outside firms usually employing brokers or agents to bid for them. An unknown bidder might have to leave a deposit (see Rule I., p. 375).

The contract of sale is contained in the broker's sale book. Legally, Brokers and Auctioneers act in the capacity of agent for both buyer and seller. From the sale book are copied the **Contract Notes**. Usually the buyer gets what is called a "Bought Note," and the seller a "Sold Note."

BROKER'S BOUGHT NOTE.

A. HIDE & CO.,
Brokers.

Proprietors.
A. Hide. B. Smith.

55 Mark Lane,
London, 21st November, 19 ..
E.C. 3.

Messrs. H. L. Factor & Co., Clerkenwell, E.C. 1.

We have this day bought by your order and for your account at Public Sale 40 B/ South African Hides in conformity with the sale conditions.

Prompt 5th December 19....

Lot 21	5	Best Ex. h. Dry	at	21*d.*
,, 26	15	Best Heavy ,,	,,	26*d.*
,, 27	10	II Heavy Dry	,,	25*d.*
,, 28	5	II Light	,,	17*d.*
,, 30	5	II Calf	,,	23*d.*

Yours obediently

Brokerage ½%.
Lot Money 5/-

The Sold Note is similar in form, reading of course:—"We have this day *sold*," etc.

8. *Broker's Invoice and A/S.*—On or just before "prompt day," on which delivery and payment are to be made, the

broker sends an Invoice to the Buyer, and an Account Sales to the Seller.

A Delivery Order on the dock company, wharfinger or warehouse is handed by the broker to the buyer, to enable him to get delivery of the goods, and the broker receives payment on behalf of the sellers, thus concluding the transaction.

Without Reserve.—Where the seller stipulates minimum or "reserve" prices, the auctioneer must withdraw any lots for which the highest bidder has not offered enough. As this procedure tends to discourage buyers, many auction sales are advertised "without reserve," which means that the highest bidder gets his lot, however low his offer may have been. The seller may, however, expressly reserve the right to send someone into the sale room to bid back any lots which would otherwise have to go at ruinously low prices. See Rule I. p. 375

Prompt Day.—Whether produce be sold by auction or otherwise, a definite date is invariably arranged for payment and delivery, known as "prompt day," or "prompt." Prompt may be a day or two or a month after the sale, according to the custom of the trade.

Early Delivery.—With the consent of the selling brokers the buyer may pay and get delivery before prompt—see Rule II.

Default.—If after the sale the buyer fails to pay the amount due, he is said to be a "defaulter," and can be sued for breach of contract. In practice the goods are sold again, after due warning, by auction or otherwise, and the defaulter is held liable to pay the difference if the second sale should not realize as much as he originally bid.

"@ **Capetown.**"—The sign "@" in a sale catalogue means "from," not "at."

Delivery.—Where the buyer purchases on "**c.i.f. terms**"

he pays landing charges; he becomes himself the importer. The same applies if he buys "**ex ship**" or "**overside.**"

If the sale is on "**landed terms**" (*e.g.* "Delivered free to van," or "ex quay"), the buyer is debited with no charges at all, provided he fetches the goods within the time stipulated. If the goods are not removed within the period agreed, the buyer is of course liable for storage.

Weighing and Taring.—The term "Tare on the basis of 10% tared" means that one bale in every ten is opened for the purpose of weighing the wrappings, and thus ascertaining the difference between the **Gross** and **Net Weights** Wool is tared on the average of 3% of the bales, and to the nearest lb Bags of sugar, cocoa, coffee, etc., are average-tared, but more carefully

In the case of some produce a further allowance is made for leakage, dirt, moisture or errors in taring, called **Draft** (see p. 382)

Landing Weights are these appearing on the weight or landing a/c given by the dock company or wharfinger when the goods were landed Where merchandise is sold at **Re-weights** the seller pays for weighing again on delivery; otherwise the buyer is charged for this service if he wants it done. (*See top of p.* 376) The re-weights may differ somewhat from the landed weights, owing to drying or absorption of moisture or other causes.

Brokerage.—The broker is rewarded for his services by a commission called "brokerage," which is chargeable, in most trades, to buyer *and* seller. The percentage varies in some cases with the amount of the contract, in order to penalise small shipments which may give more trouble than they are worth.

Lot Money.—A charge called "lot money" is also made for lotting, cataloguing, etc. The charge ranges from say 6d. to 2/- per lot (*e.g.* for hides, 1/- to buyer only; dried fruit, 6d. to buyer and 1/- to seller).

BROKER'S INVOICE TO BUYER.

(Fur Skins.)

Telephone Nos · City 00 and 000
Telegrams: "FUSKIN, LONDON"
Codes A B.C. 5th edition, Lieber's and private.

LONDON, 20th October, 19...
Prompt 18th November, 19...

Mr. A. W. Smith, Mfg. Furrier.

To HOWARD & RANSOME, LTD.,
Garlick Hill, London, E.C.

(Public Sale)

			£	s	d		£	s	d
LOT									
158	2,500 Squirrel Skins at per %	92/6	115	12	6				
159	2,500 „ „ at „	92/6	115	12	6				
442	100 „ Sacs at each	20/-	100	-	-				
		£	331	5	-				
	Discount $2\frac{1}{2}$% -		8	5	8				
						£	322	19	4
	Brokerage $\frac{1}{2}$% -						1	13	2
	Lot Money at 1/6 -							4	6
						£	324	17	-
	Checked by			J.	S.				

THE WOOL TRADE.

British wool is sold at the local fairs or auctions at various provincial centres, and some is supplied direct from the farmer by private treaty. The home clip is, however, small compared with the quantities imported from the Colonies, South America and the East Indies. In the new countries, where land is cheap, the breeding of sheep and cattle is done on a far larger scale than in this country, and by very different methods.

In Australia and New Zealand the sheep farmers, or "squatters" as they are called, allow their sheep practically

to run wild on the station, each breeder's flock being identified by the shape of the "ear-mark" or incision made in the tip of the animal's ear.

When the shearing-season comes round, the sheep are caught and impounded. The clip is sorted or **classed** according to quality, some of it is **scoured** (*i.e.* partially cleansed) and then it is **loose baled** for transport. Most of the wool, however, is baled **in the grease**, just as it comes from the sheep. (In 1918-20 of all the wool imported from Australia and New Zealand 90% was greasy against 10% scoured).

The greater part of the Colonial clip is disposed of at the **Colonial Sales.** The squatters consign the loose bales to selling brokers at the wool ports, and the sales are attended by local buyers and the representatives of spinners and others, some being sent out specially to tour from one port to another. Thus one buyer may go to Melbourne, Geelong and Adelaide, another to Sydney and Brisbane, etc.

There is a certain amount of speculative buying in the Colonial Markets of wool which is sent to London to be put up again at the Wool Exchange, and dealers here occasionally take advantage of an upward tendency in prices to buy for re-sale.

The Colonial Banks do a large amount of consignment business, but still more is undertaken by the Australian Merchants, who have themselves at times become considerable holders, by lending the squatters money and being forced to foreclose in bad times when the advances could not be repaid. The shipping documents are endorsed and handed to the bank or merchant firm, who advance the farmer part of the value of the wool at once, and pay him the balance, less their commission, expenses and interest on the loan, when they receive the proceeds from their branch or agency in London. The banker or merchant thus acts as commission agent, and, with the help of his correspondent here, fulfils the function of both exporter and importer.

Whether the importer be a bank or a merchant, the wool is almost invariably disposed of on the Wool Exchange by public auction, though some is sold by private treaty. On receipt of the shipping documents the importer clears the goods, and has them landed either at one of the warehouses under the P.L.A. or at a private wool warehouse. The importer gives the selling broker **a sampling order** on the warehouse people, who draw a 1 lb. sample from each bale to enable the broker to grade the consignment in saleable "lots" and to send the importer a report and valuation.

The broker now offers the wool for sale and catalogues it. Meanwhile the warehouse people re-pile the bales in accordance with the lotting, and put them on show in the warehouse,

where prospective buyers go in order to examine the wool, and estimate what each lot is worth before they attend the sales.

The dates of the London wool sales are arranged by the Colonial Wool Merchants' Association. The Buyers are spinners, top-makers, manufacturers and merchants from Bradford, Huddersfield, etc, who buy directly through the Chair or through a **buying broker**. The buyer usually limits the broker in price to so many pence per lb. for the wool delivered clean at his works, relying on the broker's expert knowledge to judge what the net yield will be.

BROKER'S INVOICE TO BUYER.

(*Colonial Wool.*)

Telegraphic Address
" Wolbrok, Ave London "
Telephone, London Wall, 1000

Partners:
A B Woolley
C O Brock

0, Coleman Street,
London, 4th March, *19..*

*M*essrs. A. Topp & Son.

To WOOLLEY & BROCK.

For Twenty *Bales of Wool Bought at Public Sale this day.*

Cheques to the Order of Woolley & Brock

Lot	*Bales*	*Tare*	*Gross*			*Tare and Draft*			*Net*			*Net Lbs*	*Price*			
4	20	12	63	3	8	2	2	24	61		12	6844	15	427	15	-
	Draft 1 lb per cwt															
						Samples 20 at 15*d*						£1 5	-			
						less ⅓rd						8	4			
															16	8
						Lot Money									1	-
														£428	12	8
			Prompt 16th March, 19													
			E & O E													

BROKER'S ACCOUNT SALES TO IMPORTER.

(*Colonial Wool.*)

Account Sales of Eighty-one *Bales of Wool ex* • "Gorgon" @ West Australia *sold by auction on the* 2nd March, 19 . *for account of* Messrs. I. M. Porter & Co.

Bales		*Tare*	*Gross*	*Tare and Draft*	*Net*	*Net Lbs*	*Price*	
12	Mural	12	36 2 1	1 2 13	34 3 16	3908	17½	284 19 2
7		,,	21 1 4	3 21	20 1 11	2279	16	151 18 8
26		,,	81 2 10	3 2 2	78 – 8	8744	15½	564 14 4
20		,,	63 3 8	2 2 24	61 – 12	6844	15	427 15 –
6		,,	18 1 20	3 6	17 2 14	1974	14	115 3 –
9		,,	28 3 27	1 – 25	27 3 2	3110	12½	161 19 7
1		,,	3 – 24	15	3 – 9	345	13	18 13 9
81			254 3 10	10 3 22	242 3 16	27204		£1,725 3 6
			Samples 81 at 15¼*d*			£5 2	9	
			less ⅓rd			1 14	3	3 8 6
								£1,728 12 –
reight a 1⅜d				£	184 3 10			
rimage								
nterest on do					18 5			
re Insurance					1 4 7			
arehouse Charges					5 13 6			
le Expenses 6*d* per B/-					2 – 6			
rokerage, 1%					17 5 –			211 5 10
								£1,517 6 2

London, 17th March, 9
E. & O. E.

WOOL CATALOGUE.

(*Priced Copy.*)

No. 2.

SOLD BY AUCTION

BY

AT THE

WOOL EXCHANGE, 25 COLEMAN STREET, E.C.,

On Wednesday, 2nd March, 1921,

The following Goods, viz. :

232	Bales	New South Wales	Wool.
266	,,	Queensland	,,
942	,,	West Australian	,,
200	,,	South Australian	,,
88	,,	Tasmanian	,,
996	,,	New Zealand	,,
10	,,	Sweepings	,,
2734	Bales & Sweepings in bulk.		

CONDITIONS OF SALE.

1 —The highest bidder to be the purchaser ; and if any dispute arise between the bidders for any lot, it shall be decided by the Broker, unless one of the claimants will advance, in that case the lot shall be put up again

2 —The goods to be weighed off by the warehouse keepers and taken away by the buyers at their own expense within fourteen days, with all faults and defects of whatever kind (including defect or error of description) One Invoice to be rendered to each buyer for the whole amount of his purchases, and delivery to be given not later than the seventh day after the day of sale upon payment of the invoice in full, or, if the same be not then ready, of an estimated equivalent sum, in cash, or Bank of England Notes, without discount.

3.—The goods to be free of rent, and at the risk of the vendors from fire, without reference to any payment which may have been made by the buyer to the brokers until Six o'clock p.m of the third day from the expiration of the prompt unless previously delivered from the warehouses, and should any be destroyed or damaged by, or in consequence of fire during the above-mentioned period the contract for such portion is to be cancelled and any money paid on account thereof is to be refunded.

4.—The buyers to pay the brokers one shilling per lot, and to deposit £25 per cent (if required) at any time during or after the Sale

5—And if any lot or lots remain uncleared after the expiration of the said fourteen days, the before-mentioned deposit to be absolutely forfeited, and the buyers to be further subject to all loss and charges that may accrue on the re-sale thereof, which it shall be at the option of the brokers to effect, either by public sale or private contract

6—If the weighing, delivery, or receipt of any lot, shall be delayed or prevented by reason of a general or partial strike of workmen, the respective periods under these conditions for weighing, delivery and receipt of, and payment for the goods shall be proportionately extended for such period as may be necessary not exceeding the 28th day from the date of sale If at the expiration of such 28th day the weighing, delivery, or receipt of the goods is, and shall have been, prevented by any such strike, the contract of sale shall as respects undelivered goods be annulled, and all payments (if any) made by the buyer for such undelivered goods shall be repaid to him If, however, a Delivery Order shall for 72 hours (exclusive of Sundays, or Bank or Public Holidays) have been in the possession of the buyer or his agent, delivery as between buyer and seller shall be deemed complete If delivery shall, from the causes specified in this Condition, be delayed or prevented, the charges on the undelivered goods shall, during such extended time, be borne by the seller, and unless the buyer shall have made default in taking delivery, the undelivered goods shall be at the seller's risk as regards damage or destruction by fire until 4 o'clock in the afternoon of the 31st day computed from the day of sale

Tare as specified. Draft 1 lb. per cwt., and no other allowance whatever.

At per lb. to advance ¼*d.* until the price of 10*d.* is reached and after 10*d.* to advance ½*d.*

AT MESSRS. BROWNE & EAGLE'S, LIMITED,
22 LEMAN STREET.
Ex Gorgon, @ West Australia.

	Lot.	Tare, lbs.	Mark.	Bales.	*d.*
Grease AAA combing	1	12	Mural	12	17½
AA ,, H	2			7	16
				26	15½
				20	15
AA fleece	5			6	14
A ,,	6			9	12½
BB combing	7			1	13

(Market Report from daily press.)

WOOL.—At public sales two catalogues were submitted jointly totalling 8,236 bales, and comprised 1,074 New South Wales and Queensland, 2,072 Victorian, 753 South Australian, 740 Western Australian, 379 Tasmanian, and 23,188 New Zealand About 3,000 bales "free" Punta Arenas also came under the hammer. Competition showed slightly more animation than has been the case of late, and withdrawals less frequent. New South Wales and Queensland scoured merino combing 13*d* -35*d* , greasy merino 10½*d* -19*d* ; Victorian scoured comeback 24*d* -25*d*. ; New Zealand scoured merino bellies 36½*d*., greasy cross-bred 9*d* -20*d*., slipe cross-bred 9*d* -14*d*

Withdrawals refer to lots withdrawn from the sale because the bidding has not reached "reserve prices."

Slipe is wool taken from skins. It is "sliped" off the skin with a blunt instrument.

PROMPT is fourteen days from the sale, on which day the buyer receives a D/O in exchange for his cheque to the selling broker, who passes the latter on with his A/S to the importer. The buyer can, with the selling broker's consent, get early delivery, but he has to pay on delivery.

Immediately after the sale the selling broker issues a **Priced Catalogue**, which importers send out to their colonial friends to show what the various shipments, including their own, have realized.

The London Sale Rooms.—The principal commercial sale rooms in London are :—

(1) *The Commercial Sale Room*, Mincing Lane, for dried fruit and grocery, sheep skins, hides, dyeing and tanning materials, tallow, rubber. etc.

Medicinal and chemical produce also centres round this vicinity, but is disposed of chiefly through brokers by private treaty.

It should be noted in connection with the produce referred to above, that prospective buyers may inspect the lots in bulk at the wharves or warehouses where they have been landed, or they may see samples at the **sampling rooms** attached to the broker's offices.

(2) *Pudding Lane* for oranges, lemons, grapes, nuts, onions.

GREEN FRUIT CATALOGUE.

FOR SALE BY AUCTION
(Unless Disposed of Privately)

At Monument Buildings,
This Day, Monday, Dec. 23, 19..., at Eleven a.m.,
The following Goods, viz :

5996 cases & ½-cases Denia & Valencia Oranges
2000 small boxes Denia & Valencia Mandarines.
907 boxes Palermo & Messina Lemons.
8 bags Yufa Nuts.
Ex Pena Sagra & Corea.

Conditions of Sale as exhibited in the Sale Room.

SPECIAL CONDITIONS

Weight of Oranges and Lemons are those of "On Show" packages only, and are given as approximately indicating the average weight of the parcel

In the event of any "On Show" package being different to schedule weight, the parcel will be sold at per cwt or lb (as the case may be)

Should the Buyer dispute the weight of any parcel before taking delivery, he shall be entitled to have it verified

23rd December.

On show packages must be cleared 12 noon day following Sale, otherwise additional charges will be incurred.

Import Mark or Brand

Denia Oranges, *ex Pena Sagra* Now Landing
Mark Brown's Wharf.
Some Cases

Import Mark or Brand		Lot	C	CC	×C ×C ×C	cases
BAUTISTA ANDRES ex selected	420	1	2		ex. lrg (1)	2
	14	2	10		,, (1)	10

Palermo & Messina Lemons, *ex Corea.*
Middleton's Wharf.
Truck No. 145,038.

		L	LL	×L	×L	×L	boxes.
ORAZIA ARENA Bulls head New FVC 300	471	30					30
	4						
	473	30					30

PRICED CATALOGUE.

SOLD BY AUCTION

(Or Disposed of Privately)

BY

All Goods Sold subject to Delivery.
Todos los Lotes están Vendidos sujeto á Entrega.

VERA GRAPES, *ex Anglier.*

(*More or less rain damp & ore stained*)

				barrels.	
MARIA LEGITIMA	460			30	
	461			20	
	462		on shew	2	

Ex Lowther Castle.

ENRIQUE AGUIRRE	13	463	lifted	1	40/

VALENCIA ONIONS, *Ex Denbighshire.*

			cases	
MADRERA VALENCIA Crowned Head selected	603		9	35/
	604	on shew	1	34/

YUFA NUTS, *ex Rail.*

		bags,	at per cwt.
SHA	605	4	
	606	4	

(3) *Wool Exchange, Coleman Street,* for Colonial wool. The River Plate and East India clips go to Liverpool.

(4) *College Hill* for fur skins.

IMPORTER'S ACCOUNT SALES TO FOREIGN SHIPPER.

(*Green Fruit.*)

H. A. LEMAN & Co ,
Eastcheap Buildings, Eastcheap,
Londres, E C 3

No. 283.

Cuenta de Venta de 31 *cajas naranja recibidas por Vapor* "Heidelberg" *y vendidas en Londres por cuenta del* Sr. Don J. Vicente de Villalonga *baja nuestra garantia*

192

		Por venta segun Catalogo						
Dic	15	C Vincente - - - - - - -				£ 32	12	-
		2 8						
		1 14 7						
		1 4						
		6						
		TARIFA						
		Gastos de desembarque, subasta y entraga por caja, gastos menores y de correo y impuesto nuevo del puerte de Londres - - - - - -	1	19	1			
		13 *Largas a* 1d *extra porte* - -		1	1			
		12 *Ex ex largas a* 2d *extra porte* -		2	–			
		31 *Cajas a* 1d *extra subasta s/ lotes de menos de* 30 *cajas* - - -		2	7			
		5 *Muestras de* 6d *cada una* - -		2	6			
		Corretage 2% - - - - - -		13	1			
		Flete segun conocimiento - - -	2	15	–			
		Seguro maritimo s/ £38 *y sello* - -		4	10			
		Comision de servicio $2\frac{1}{10}$ *penique por caja*		7	–			
		Garantia para cobrar el producto 1% -		6	6	6	13	8
						£ 25	18	4
		Telegrama del 15 cte - -					3	0
						£ 25	15	4
		Valor 20 *de* Diciembre 192						
		LONDRES, 16 *de* Dicre, 192						
		S.E. u O *Por* H A LEMAN & Co.						

Brokers and Factors.—The function of the broker is to put buyers in touch with sellers and arrange bargains between them. In practice he does much more than that, usually taking charge of the consignments as they are

received at the docks or wharves (brokers frequently have wharves of their own), sorting and lotting the goods and generally preparing them for sale. The importer in many cases gives the broker the bill of lading to enable him to attend to the landing of the goods.

The legal powers and duties of the broker are different from those of the commission agent, though both are agents. (*a*) The broker's duty is to put buyers in touch with sellers, and to arrange contracts between them in accordance with their instructions. He is agent of both parties. (*b*) The broker as such may not act in his own name, and is not himself liable on the contracts he arranges. He acts in the name of the buyers and sellers who employ him, and if either party fails to fulfil his part of the contract he must do all he can to make the defaulter do the right thing; but if it comes to legal proceedings the broker cannot sue in his own name, but must appear on behalf of his principals.

On the other hand the commission agent has the powers and duties of the class of agents known as "factors." It is the duty of any sort of agent to obey the expressed wishes of the person who employs him, but in the case of a "factor," who is entrusted with the possession of goods, (*a*) any contract he may make in respect of such goods, though contrary to his principal's instructions, is as valid and binding as if it had been made with the consent of the principal. (*b*) The factor may act in his own name, is personally liable on the contracts he makes, and (*c*) can sue in his own name.

In the early days of commerce the broker's functions included that of interpreter. In the Middle Ages he occupied a position of considerable dignity as a state official, and was forbidden to enter into any commercial transactions on his own behalf. As recorder of the merchants' dealings, he was considered to be unbiassed, and his word was accepted as evidence.

In the case of produce of exotic origin, the dignity of the broker still remains, and although he does his best for importers and assumes that the "buyer can look after himself," his dealings are quite open and devoid of any suspicion of trickery. When acting in his customer's name he is not, as has been said above, responsible for non-payment, but in practice a broker would not be likely to "let his customer down."

The name of the other party is not always revealed to the broker's client, as will be seen from the Bought Note on p. 377. And frequently produce brokers expressly guarantee payment to the buyers, a service for which they charge the importer an additional percentage (say 1%) called "Guarantee."

The present function of the broker in some branches of trade is very different from what it was originally. Many are in the habit of dealing not only as intermediaries but as merchants dealing on their own account, in which case they may be termed **merchant brokers**

The Utility of Intermediaries.—By employing a broker the importer is relieved of the anxiety and expense of finding buyers himself, and the broker's expert knowledge of the goods and the requirements of trade enable him to value the goods, sort them into lots of suitable quality and quantity, and sell to the best advantage. Without him the importer who was not specially equipped for the intricate work of distribution to buyers (who often know more about the goods than he does) would have to employ salesmen to canvas buyers, and a staff of experts to sort and value the consignments, in addition to securing help in landing, warehousing and delivering goods.

The Broker is able to render these valuable services for a small percentage, because his efforts are not confined to one importer's consignments; he works for many importers, and so finds regular employment. Similarly, the

Warehouseman makes his living on reasonable charges by storing large quantities, and making the fullest use of his premises and his servants.

The broker is not always the last intermediary between importer and consumer. Imported foodstuffs are mostly purchased by the wholesale dealers, who supply the retail. Wool and Cotton are largely bought by spinners direct, but hides, fibres, chemical, and much other produce used in manufacture are bought on the market by intermediaries, known as **agents**, **factors** or **merchants**, either on commission or at their own risk as merchants Each has his special function, and earns his living by (*a*) assuming the risk of buying in large quantities and retailing in small assortments, or (*b*) rendering expert assistance in purchasing just what is required, or (*c*) helping his customers financially.

Exercise 14.

1. What is a Fair ? Give examples.

2. Explain the general methods by which produce, as distinguished from manufactured goods, is usually disposed of on the wholesale market, and mention the names and describe the character of the documents employed in this connection. (S.A.tpc.II.)

3. I employ a broker to sell for me some dried fruit which in the course of my business I have imported from Valencia. After the sale my broker sends me an Account Sales. Explain the functions of a broker, and the exact character of the account sales. (S.A.cc.II.)

Note.—The procedure would be similar to that described in regard to hides, but raisins and currants are dutiable.

4. In what connection do bought and sold notes arise ? Draft a bought note and a sold note in respect of any commodity with which they would be used. (S.A.tpc.III.)

5. (*a*) Describe the procedure followed by an Australian consignor of wool to the London wool sales. (U.L.C.tpc.5.)

(*b*) By what other methods is Colonial wool disposed of ?

6. (*a*) Alexanders & Co., Wool Brokers, sell by order and on a/c and risk of "Pontifex" Rees, ex "Bendigo" @ Australia, the following wool:—

Marks.	Lot	Bales.	Gross wt. c.	qr.	lb	Tare and dft c	qr.	lb.	Net wt c	qr	lb	
	89	25	89	2	4	3	2	0	86	0	4	at 2*s*. 2*d*. lb.
	90	28	101	3	2	3	3	15	98	0	15	at 1*s*. 11½*d*. lb.
J.S.C.												

Set out in proper form the A/S (*N.B.*—The candidate is himself to specify the various charges likely to be deducted from the gross proceeds, and to allot purely nominal amounts for each item, showing finally the net proceeds.)

(*b*) Supposing Alexanders & Co. had sold the wool at their own risk, what charge would you include in the A/S that you do not include in the above? (S.A.cc.III.)

7. Differentiate between: Landed weights and re-weights; landed terms and c.i.f. terms; brokerage and lot money; D/O and D/W; Tare and draft.

8. Explain "Without Reserve," "Prompt Day," "Default," "Early Delivery," and "Priced Catalogue."

9. What are the distinctive functions of a merchant and of a broker? Illustrate your answer by reference to any wholesale market with which you are familiar. (U.L.C.tpc.4.)

10. What is the difference between a factor and a broker? (S.A.tpc.III.)

11. (*a*) Name some of the items that would appear in a broker's invoice or sale note, that would not appear in a factor's invoice. To what class of the mercantile community do factors and brokers belong, and what generally is their function in commerce? (S.A.cc.II.)

(*b*) State the utility of intermediaries generally in connection with the produce markets.

12. Name six produce markets dealing respectively with fish, furs, grapes, meat, potatoes and raisins. State other forms of produce bought and sold on the particular markets you name, and describe roughly the methods of dealing applied to each.

CHAPTER XV.

THE PRODUCE MARKETS.

(Continued.)

What Goods are sold by Auction?—The introduction of the auction sale as a method of disposal of imported produce has been attributed to the Dutch East India Company, who once held a monopoly for the importation of spices and other commodities from the East Indian Archipelago. At the present day the coffee imported into Holland from Java as colonial tribute is sold at the alternate monthly auction sales held by the Nederlandsche Handelsmaatschappij at Amsterdam and Rotterdam, for government account.

Whatever its origin may have been, the auction method is used by merchants for the disposal of enormous quantities of produce. Its importance has doubtless declined to some extent owing to the increased volume of direct trade between home merchants or users and producers overseas, but it still forms one of the principal channels of distribution, particularly in London.

A similar but not identical method is now adopted at the Java and Sumatra tobacco sales at Amsterdam and Rotterdam, where buyers tender their offers in writing instead of bidding by word or gestures, as in the auction proper.

Generally speaking, the auction method is favourable to the seller, and the advantage to be derived from it is

proportional to the local importance of the sale room as a centre of supply and demand. The more business is concentrated there the more lively will be the bidding, and by no other method can the importer dispose of his consignments, and receive payment of the proceeds, so quickly.

Manufactured articles seldom make their first appearance on the market by auction sale, although second-hand furniture and articles of value, such as paintings and jewels, are commonly sold under the hammer.

Cheap manufactured goods are, however, occasionally disposed of by auction, and at some places (*e.g.* New York) European manufactures imported from overseas on consignment reach their ultimate destination by way of the auction room.

Reference to the list of London auction rooms on pp. 386 and 388 will show the kinds of produce which are commonly sold by auction. Fish is also sold by auction at the coastal sales (usually by " Dutch " auction), in order to get it out of the way as quickly as possible, yet at a fair market price. In general the auction proper is applied only to such produce as will keep long enough to allow brokers to catalogue and advertise the sale, and secure a good attendance.

Produce Exchanges.—The Exchange may be defined as a permanent, organized meeting place for those engaged in commerce for the purpose of negotiating any sort of business transactions.

The origin of most exchanges is to be found in the custom of business men to meet at a certain place—in a certain street for instance—until they, or some other enterprising people, have seen fit to provide better accommodation by the erection of an exchange building. In old London certain coffee houses became the habitual resorts of those engaged in shipping, marine insurance, and dealings in company shares. Lombard Street and Cornhill have already been referred to in this connection (p. 129).

The origin of the word **Bourse**, now used all over Europe to denote an exchange for commercial dealings (Fr. *Bourse*, Ger. *Börse*, Sp. *Bolsa*, etc.), is derived from a square in Bruges called "de Bursa" after the name of a Dutch family of brokers resident there in the fifteenth century.

In the smaller commercial centres one building commonly serves as an exchange for dealings in stocks and shares, bills, chartering, marine insurance and produce; but where the volume of business is great, we find the different classes of business tend to diverge and find separate accommodation. Thus in London the *Stock Exchange* is confined to dealings in marketable securities, bill brokers meet at the *Royal Exchange*, in which building *Lloyd's* (marine insurance) also have their premises, and shipping business is transacted at the *Baltic Exchange*, while separate exchanges exist for dealings in various kinds of produce and minerals. The principal produce exchanges in London are:

(1) *The Baltic Exchange* in St. Mary Axe (referred to above) for imported Cereals, Timber, Oils, Oilseeds, etc.
(2) *The Coal Exchange* in Lower Thames Street.
(3) *The Corn Exchange* in Mark Lane, for Corn, Flour, Fodder, Peas, etc.
(4) *The Home and Foreign Produce Exchange* at London Bridge, for Bacon, Cheese, Eggs, Ham, Lard, etc.
(5) *The Hop Exchange*, Southwark, for Hops, Eggs, etc.
(6) *The London Iron and Steel Exchange*, Cannon Street.
(7) *The Metal Exchange*, Whittington Avenue, for Copper, Tin, Lead, and Spelter.
(8) *Mincing Lane* (The Mincing Lane Commercial Sale Rooms, Ltd.) is the most important centre in London for exchange dealings in other produce, such as Coffee, Sugar, Rice, Jute, Hemp, Rubber, etc. Auctions are also held there.
(9) *The Timber Exchange*, Cannon Street.

The *London Wool Exchange* is an auction room. The *Cotton Exchanges* of Liverpool and Manchester have a world-wide reputation, and the *Liverpool Produce Exchange* for provisions is next in importance to the London markets.

Exchange Dealing.—An essential difference between the produce exchange and the ordinary market or fair should be noticed in the fact that goods are not deposited on the exchange. Exchange dealings are actually confined to staple commodities which are in constant demand, and it is essential that buyers and sellers shall be able to agree there and then as to the value of the produce they contract to buy and sell.

Qualities may be determined by sellers exhibiting samples on the exchange, as they do in selling corn at Mark Lane, where buyers are allowed three days after the sale to inspect the bulk and cancel their contract if they find the quality not up to sample. But it is not always either possible or necessary to take actual samples from the bulk.

Where produce is sold before it arrives at the port of destination, the quality may be ascertained by means of samples taken from a previous crop, or from the early part of the present crop, known as **Standard Samples** or "**Type.**" It is usually necessary, in the case of seasonal produce, to take several types to serve as a basis for the assortment of different qualities or "Grades." In other cases the quality may be determined by a description based on a *chemical analysis*, or on the relative *volume and weight* of the produce and other characteristics.

Methods of Grading.—The grading may be done privately, as between buyer and seller, or officially by the co-operation and agreement of all merchants and brokers on the market.

No system of grading, however, is of any practical use for exchange dealings unless the standards are sufficiently definite and well-known to allow of disputes being submitted to the arbitration of brokers. If the quality is inferior to standard the buyer is awarded an allowance off the price; but if it is superior to standard the seller cannot claim any more money.

Coffee, rice, tapioca, spices, wheat, maize, jute, hemp, cotton and *rubber* are all commonly graded according to standard samples. *Sugar* may also be graded by analysis.

Coal may be sufficiently described by mention of the size of the screen and the name of the colliery whence it comes, whereas *pig-iron* and *non-ferrous metals* are graded by analysis or assay. *Phosphates, nitrates* and *ores* generally (which are not officially graded) are valued on the basis of an analyst's report.

Eggs are graded in some cases according to size, and in others according to colour. *Bacon* is commonly described by factory trade-mark or brand, and a grade referring to leanness or fatness.

In the general interest of merchants and agents concerned in each trade, the qualities are usually standarized by a **Grading Authority** or Committee, or a local Association. In the case of North-American Cotton, the types are fixed at each harvest in conformity with the American standards. Wheat from the U.S and Canada, and Bacon, Butter and Cheese from certain other countries are graded according to quality and weight by government authorities at port of shipment, who give an **Official Certificate.**

Possibility of Grading.—Though the country of origin is always of interest in describing foreign produce, further grading is not always necessary. There may be no assortment of qualities other than that resulting from the place of origin, as in the case of *Esparto grass, coconut fibres* and certain *chemical produce.*

On the other hand, it is not possible to grade all produce. *Tea* and *wine* have to be tasted ; attempts have been made to grade tea, but without success. *Tobacco, wool,* and (usually) *hides* must be inspected in the bulk, as the quality may vary in each package or bale, and such things as *raisins, currants, nuts,* etc., could not be valued without at any rate the use of samples.

Owing to the difficulty of determining qualities the kinds of produce mentioned in the last paragraph are not sold on the produce exchanges. As a general rule, commodities which have to be sampled or viewed in bulk are sold (*a*) by auction, (*b*) by private treaty, or (*c*) if perishable, on the municipal or other public food markets.

THE COAL TRADE.

There are four kinds of intermediaries engaged in the distribution of coal from the collieries to consumers:

1. Retail Coal Merchants;
2. Coal Factors;
3. Bunkering Firms on the coast; and
4. Coal Exporters.

It is estimated that the London retail **Coal Merchants** obtain about two-thirds of their supplies direct from the collieries, the remaining third being purchased from coal factors, whose function may be compared with that of the wholesalers who supply the retail in other branches of trade.

The Coal Merchant receives his supplies at a depot consisting of a railway siding or "wharf," provided by the railway company, who charge rent at a rate per square yard of storage space. The larger merchants, who have the means to commit themselves to take a considerable tonnage per month, purchase direct from the collieries by contract, thus getting an advantage in price. What they do not get by contract they buy at short notice from **Coal Factors** whom they meet on the exchange. The small merchants, on the other hand, are obliged to go to the factor for all their supplies.

The larger Coal Merchants have their own railway waggons, clearly marked with name and number to enable the railway officials to see that they are moved about as directed and returned to the proper siding. The maintenance of waggons is undertaken by firms of **Waggon Repairers** who work by contract, say £7 per truck per annum. Other Merchants and Factors hire waggons of **Waggon Proprietors** who let them out at a rate per truck per month, or the railway companies supply waggons for an extra charge.

In London the wholesale trade centres on the **Coal Exchange,** many of the Coal Factors having their offices in the same building. There the factors meet colliery representatives and Coal Merchants. The function of the factor is to market the coalowner's output, and his connections and capital are such

as to enable him to buy at favourable prices, and even to contract to take the whole of the output of certain mines, so that other people have to come to him for coal. In a word, the factor always has something to offer; so retail merchants, manufacturers and gas works all find it to their advantage to come to him on occasion.

(*Market Report from daily press.*)

LONDON COAL EXCHANGE

NO BUSINESS ON OFFER

There is no improvement in the trade and no business on offer Twenty-nine steamers with sea-borne coal were entered on yesterday's factors' list During the week 72 cargoes have arrived in the Thames Coal exports and shipping for foreign bunkers in February were 2,767,880 tons, being 861,600 tons less than in February 1920

The factor, like the retail merchant, invariably buys f.o.r. colliery, in his own or hired waggons. At one time factors used to have their own siding, from which the loaded waggons were re-directed to destination as sales were effected. Nowadays they deliver straight from pit mouth to customer's yard, and, where the consignee is a wharfholder, it is usual for the factor to sell at an ex colliery price, leaving the buyer to pay the tolls

The interests of the retailers, factors and mine owners are represented by

The Coal Merchants' Federation of Great Britain;
The Coal Factors' Association; and
The Inland Colliery Owners' Association.

The following analysis, though based on costs obtaining in 1921, and now out of date, shows the items that go to make up the price of coal to the householder:

ANALYSIS OF THE WHOLESALE AND RETAIL LONDON PRICES OF DERBY COAL

	Per ton s	d	s	d
TOTAL COST AT DEPOT				
Pit Price	33	5		
Railway Freight	10	2		
Wharf Rent and Terminal Charges		4		
Waggon Hire	2	0		
Factorage		4		
			46	3
RETAIL DISTRIBUTION CHARGES				
Wages of Loaders and Carmen	4	10		
Cartage Expenses	3	6		
Establishment Charges	3	4		
Loss on Smalls		7		
Directors' and Proprietors' Remuneration and Profit	1	6		
			13	9
			60	

The **Gas Works** obtain the bulk of their coal direct from the collieries by contract, and dispose of the Coke direct to householders and industrial firms, or through the local coal merchants. Coal factors also deal in coke, which they buy from the gas works and colliery companies that produce it.

The **Bunkering Firms** and **Exporters**, who frequently do a factor's business as well, are invariably direct buyers.

Finally, the Mines, though under private ownership, are worked under a considerable amount of government regulation and inspection. The miners' wages are fixed by the Board of Trade, after agreement with the labour representatives.

Spot Business.—A sale of goods which are in a warehouse or at the docks ready for delivery is known as a "spot" sale, and the goods are said to be "spot" goods.

"**To Arrive.**"—Where goods are sold "to arrive" or "**off the coast**," it is understood that they are already on the journey, and will be delivered on arrival. Necessarily the quality of such goods must be ascertained before arrival, either by "type" or by standard grade or description. It is not uncommon to find in the contract of sale referring to goods sold "to arrive" the expression "**tale quale**," which means that although the goods are warranted to be, at the time of the sale, in conformity with the sample or description submitted, the buyer takes the risk of any subsequent damage they may sustain on the voyage. Otherwise the seller guarantees **sound delivery**.

The words *tale quale* are of the greatest significance in the case of grain—which may depreciate in value after inspection owing to "heating"—and produce (particularly deckloads) which have not been insured against damage.

Cargoes are sometimes shipped to Europe without a fixed destination, in order to give the importer time to sell the goods **afloat**. The carrying vessel first puts in at an "order port," where the captain receives further instructions as to the port to which he is to proceed for unloading.

Forward Delivery means delivery at some future time, *e.g.* one may buy *March hemp*, *December coffee*, *May-June cotton*, *fibres for January shipment*, *coal for November loading*, etc Contracts for forward delivery are usually made on c.i.f. terms.

(*Market Report from daily press.*)

FOREIGN AND COLONIAL PRODUCE

SUGAR —The market was firm in sympathy with the advance in New York, and also a good trade demand It is reported that the Cuban Sugar Commission has named the price of 5¼c cost and freight and 5 10c f o b for March-April shipment Crystallised West India sold at 61*s* 6*d* to 62*s* 6*d* landed terms duty paid

COFFEE —Spot market quiet at about late rates Futures slow and easier March quoted 45*s* 6*d* , May, 46*s* 3*d* , July, 46*s* 9*d* ; September, 47*s* 9*d* , December, 48*s* 6*d* cwt

RICE - Market inactive forward, but spot lots continue in demand Bran afloat, £7 per ton Rangoon beans spot, £9 per ton sellers

SPICE —Pepper market steady, quiet Fair black Singapore spot sold 4½*d* , January-March, 4¾*d*

SHELLAC —Quiet market , T N spot quoted at 280*s* to 290*s* , May 185*s* paid

JUTE —There is still a moderate demand for spot parcels, but for the moment there is nothing doing in forward positions Daisee No 2 afloat Dundee resold £28.

HEMP – Manila steady but quiet , J grade March-May quoted at £38 , K May-July sold at £33 , and L ditto at £32

INDIARUBBER —Quiet, steady Plantation Standard crepe spot and March sold at 11¾*d* , April 1*s*

COPRA —Quiet, steady To London, sun-dried Straits Jan -March sold at £29 15*s* , £29 5*s* , Feb -April, £28 15*s* paid , March-May, £28 10*s* , April-June, £28 7*s* 6*d*

OILS —Linseed Spot, 29*s* 6*d* , March-April 28*s* 6*d* , May-Aug 28*s*. Cotton . Crude Egyptian spot 31*s* Rape Crude spot, 47*s* Palm Softs March-April 33*s* , Lagos 34*s*

OILSEEDS —Linseed Calcutta March-April £18, sellers ; April-May, £17 10*s* , Rapeseed · Toria March-April £18, sellers Cotton-seed Black Egyptian afloat £12 15*s* , sellers , white, £11 15*s*

By contracting for the purchase of his raw materials well in advance of his requirements, the user or manufacturer (*e.g.* the miller, cotton spinner or steel manufacurer) makes sure of his supplies, and is enabled in his turn to fix selling prices for the future delivery of his own products. Naturally he makes his purchases for forward delivery at a time when he considers prices to be relatively low—say, in the case of wheat or cotton, just after the harvest. If by the time he requires delivery of his material the

market "spot" price is higher than he contracted to pay when he made his bargain, he is better off than he would have been if he had bought "from hand to mouth." If, on the other hand, prices have fallen, he must still take delivery at the price he contracted to pay, but this does not necessarily mean that he is paying too dear for his material. Fluctuations in the prices of raw material are not usually reflected at once in the price of the manufactured product.

Thus, when the retail draper stocks his shop with cotton goods for the summer season, he buys at prices which the wholesaler has probably determined well beforehand, on the basis of contracts which he himself has placed with weavers. The weaver in his turn may have contracted ahead with the spinner for the supply of his yarn. If such is the case, a rise or fall in the price of raw cotton will doubtless affect future prices for cotton fabrics, but the present contracts have to be worked off as agreed.

The farmer or producer sells forward with precisely the same intent, viz. to secure a regular outlet for his produce, and to make himself independent of market fluctuations.

Wholesale grocers and provision merchants also buy forward, in order to make sure of their supplies at prices which will enable them to make a profit. On occasion a wholesaler may buy or sell speculatively, with a view to deriving a profit from price fluctuations.

THE PROVISION TRADE.

Most of the provision business centres round the **Produce Exchanges** at Bristol, Liverpool, Manchester and Glasgow, and the **Home and Foreign Produce Exchange** in London. Dealings on the London Exchange comprise *Butter, Cheese, Bacon, Ham, Lard and Eggs.*

These exchanges originated through the co-operation of dealers, who united through their trade associations to acquire the necessary premises and staff, and at the present time all the provision exchanges are constituted as limited companies. The exchanges are supported by their members, who are elected, and pay entrance fees or take shares in the company, in addition to paying subscriptions.

The administration of the exchange is in all cases entrusted to a Chairman and Governing Body, elected by the Members, and representative of all interests, viz. those of Retailers, Wholesalers, Importers and Agents. By the rules of the London exchange no member is allowed to serve for more than three consecutive years on the governing body, and the chairman can only remain in office for one year.

The separate interests of each type of member are also served by subsidiary trade associations.

Provisions are imported partly on a consignment basis by **Agents** representing foreign or colonial shippers, and partly by **Import Merchants**, who buy outright of exporters on the other side and take the risk of the market. The principal buyers are the **Wholesale Provision Merchants**, but also some of the large **Multiple Shop** companies are members and buy on the exchange.

The **Provision Broker** occupies a position of less importance than most produce brokers. Importers do not, as a rule, engage his services, but buyers may employ a broker in order to conceal their identity. The provision broker's main function is to purchase for provincial wholesalers.

Provisions are sold either (*a*) after inspection of the bulk at the wharf or warehouse, or (*b*) by description or grade. Thus *Eggs* from Denmark are graded as 15's, 18's, etc., where the weight per "long hundred" (120) is 15 lbs., 18 lbs., etc. Dutch eggs are graded according to colour: "all whites" or "all browns," the retailers being left to sort out the sizes after purchase. Australian and New Zealand *Butter* and *Cheese* are **Government graded** as to quality and weight, the official certificate given at port of shipment being deemed final evidence in case of dispute. Sides of *Bacon* are graded according to Brand and Weight; thus | Z | No 1 might mean Messrs. Z. 's leanest, say 56/60 lbs.

Importers commonly contract *forward* with their foreign and colonial exporters, and wholesalers do the same in dealing with importers and agents on the exchange.

An important feature of the Home and Foreign Produce Exchange in London is its system of **Arbitration**. Disputants are not permitted to appoint their own arbitrators. The members of the exchange elect annually a panel of arbitrators, whose decisions are guided by a set of rules based on trade custom. Separate arbitrators are appointed to deal with each class of produce, and each court of arbitration consists of three members, viz. two importers, agents or brokers, and one wholesaler. The arbitrators' award is not final. Appeals are heard by the General Committee.

Official Market Reports are compiled by **Price Committees**

representative of Buyers and Sellers, a separate committee being appointed to deal with each class of produce. The reports are exhibited in the exchange, and copies are issued to members, to the trade and to the press.

Forward Contracts and the Merchant.—In the early days the merchant's activities probably never got beyond what we now call "spot" transactions. The wealthy dealer bought food at the harvest, kept it in his storehouses, and distributed at a profit.

As the means of transport and communication of intelligence became more rapid and dependable, the merchant ceased to limit his operations to selling from stock. By contracting for future delivery he was enabled to (*a*) save expense of storage, (*b*) buy when he liked, and (*c*) fix his own time for taking delivery and paying the price of his purchases. Moreover, by recovering his capital more quickly, he was in a position to negotiate a larger turnover, and even to extend his operations to other markets. Modern developments have not, however, made the merchant's calling any more attractive. His business tends to become ever more complicated and risky, to yield a smaller margin of profit, and to require more knowledge and attention to detail than formerly.

Speculation.—The word is derived from the Latin verb *speculare*, which meant "to look at" or "contemplate," and it may be used in our own tongue to denote the result of watching or contemplation. So in business parlance, the speculator is one who watches his opportunity to make an exceptional profit.

The element of risk does not alone render a deal speculative, for a certain amount of risk is inseparable from any sort of project. The merchant, unlike the farmer or the manufacturer, derives his income from the difference between the prices at which he buys and sells; and inasmuch as he cannot control the market, his transactions may result in a loss, instead of a

profit, to himself. But if he knows his business, and renders a useful service in the collection or distribution of the produce he handles, he will be able, on the average, to obtain more money for his goods than they cost him.

In the ordinary course of business, profit is earned by services rendered, and any transaction within the dealer's province as producer, merchant, carrier, warehouseman, banker, insurer, or what not, may be termed **legitimate business**. On the other hand, a "speculation" is a deal to win a chance profit, by foreseeing and operating on the likelihood of price fluctuations. The prediction that results in a speculation is of course based on probabilities, for, though the optimist may regard his deal as a "sure thing," we know that no future event is certain. If the operator has no reasoned motive for his action, the deal is not a speculation: it is a **gamble**. Most so-called "speculation" by private individuals in stocks and shares is sheer gambling.

The earliest form of speculation consisted of hoarding food after a poor harvest in order to distribute it at famine prices. The retention of essential foodstuffs, by creating an artificial shortage, itself helps to enhance prices, and it is not surprising that the speculator has generally been regarded with hatred by the people, and reproached with the dearth, where such existed, as if he had been the cause of it.

The French law imposes severe penalties upon any owners of grain, flour or other foodstuffs, who deliberately withhold their stocks from the market in order to exact unusually high prices, and this sort of legislation was freely resorted to in all European countries during the war of 1914-18. The anti-profiteering Act of 1919 is an example.

However immoral may be the action of speculators who exploit their country's need for personal gain, it must be admitted that the extortion of high prices does serve as a rough-and-ready means of reducing consumption, and thereby eking out what little quantities may be available until the next harvest. In time of famine it is clearly the duty of the State

not only to control prices and punish profiteers, but also to impose an equitable system of *rationing*.[1]

Seasonal and imported produce have always offered the greatest opportunity for speculation. Whereas the demand for foodstuffs and the raw materials of industry is incessant, the supply of most of Nature's products is intermittent. It is the merchant's business to relieve the farmer of his crop and secure him a certain return for it, to assure a regular supply of material to the user, and to undertake himself the risk of distribution. Enough has been said of the Produce Merchant to show the legitimacy of his functions; yet the nature of his business necessarily involves him in speculation.

Thus the merchant who in May buys wheat for delivery in September, does so because he considers the prospects for the coming harvest to be unfavourable, and anticipates a rise in the price of September wheat above the figure now asked by sellers. Perhaps by June the crop actually shows signs of giving a poor harvest, and the bad news has already resulted in a rise in prices. If this is so the merchant will have no difficulty in finding buyers for the wheat which he will receive in September, at a higher price than he will have to pay for it according to the terms of his contract. If he sells at once (for September delivery, of course) his profit is assured; on the other hand, if he has reason to predict a further rise, he will prefer to wait and complete his speculation at a later date.

Conversely, the merchant who foresaw a plentiful harvest might sell in May a quantity of wheat for delivery in September, in the hope of being able to buy in an equal quantity of September wheat before he is called upon to deliver. In other words he sells "**short**," that is to say he engages to supply that which he has not yet in his possession.

In the first case the merchant is speculating on a *rise*; in the second he is speculating on a *fall* in prices. Whichever way he goes to work, when, in September, both contracts have to be fulfilled, the merchant takes delivery from the seller and transfers his property in the goods to the buyer. If a broker has been employed, the latter will probably

[1] See *Principles and Practice of Business*, p. 28.

attend to the delivery of the merchandise, collect payment from the buyer, and pay the seller, remitting the merchant the *difference*, less expenses and brokerage.

Speculative forward contracts fulfil an economic function by regulating the action of supply and demand, and bringing prices for all places and times of delivery to a natural level. In their own interests speculators secure early information of influences likely to affect the market, with the result that prices move quickly, and actually tend to encourage or retard production. Proper distribution of the colossal and spasmodic output of the world's agricultural areas is an achievement which would not be possible without the co-operation of thousands of experts, whose duty and interest lie in directing supplies to those centres where demand, as reflected by ruling prices, is most attractive for the time being.

THE IRON AND STEEL TRADE.

Though there are some ironstone mines in this country, most **Iron Ore** is imported. It is mainly imported direct by the blast-furnace owners, but there are a number of merchants who serve as intermediaries for foreign ore.

The distribution of **Pig-Iron** to the iron foundries is largely in the hands of Iron Merchants, who deal in the home product in addition to importing foreign pig-iron, and what are known as **billets** for rolling into sheets. Many of the large steel works, however, have their own blast-furnaces, and produce manufactured iron and steel goods from the ore to the finished article.

The method of **grading** pig-iron may be seen from the following list of Prices Current:—

CLEVELAND.

	Home.	Export.
Foundry No 1	125*s*	130*s*
,, No 3	120*s*.	125*s*.
No. 4 forge	112*s* 6*d*.	117*s* 6*d*
Mottled	112*s* 6*d*.	117*s* 6*d*
Hematite, m/nos. ,, ,,	130*s*.	130*s*.

76 to 80% Ferro-manganese { Home - £16; Export - £14 10*s*. } net loose.

SCOTLAND.

		Local Trade.
No. 1 G.M.B.		150*s*.
No 3 G M B		145*s*.
Hematite f o.t. steelworks	nominal	155*s*.

Finished Iron and Steel is largely distributed through merchants who are stockholders, and perform the useful function of regulating the manufacturers' output and holding supplies at the immediate disposal of consumers. The stockholder takes a view of the market, and buys when he sees a favourable opportunity. There are also so-called "brass-plate" merchants, who have no warehouses of their own, but simply work from their offices and arrange business between producers and consumers without keeping a stock. Any goods they may happen to have on their hands are deposited at one of the public warehouses.

Finished iron and steel is classified for exchange dealing according to origin, quality and shape, *e.g.*:

NORTH-EAST COAST.

		Local Trade.	Shipment.
Iron	Crown bars	£14 0s 0*d*.	£14 0*s* 0*d*
	Best bars	£15 0*s* 0*d*.	£15 0*s* 0*d*
	Angles	£14 10*s* 0*d*	£14 10*s* 0*d*
	Tees	£15 0*s* 0*d*	£15 0*s* 0*d*
	Plates, ¼-in.	—	—
Siemen Billets, soft		£10 0*s* 0*d*	—

SCOTLAND

		Local Trade.	Shipment.
Iron	Crown bars	£14	£14
	Best ,,	£15	£15
		Clyde Area.	Shipment.
Steel	Angles	£13 10*s*	£11
	Joists	£13 10*s*	£11
	Small rounds, flats, and squares	£13	£12 10*s*
	Sheets, ¼-in.	£15 5*s*	—

The **London Iron and Steel Exchange** is held every Tuesday afternoon in the Great Hall of the Cannon Street Hotel.[1] The members, who pay three guineas entrance fee and a subscription of three guineas a year, consist of mine owners and contractors, founders, plate makers, steel manufacturers, etc., merchants, importers and exporters, agents and metal brokers, and even steamship owners, who meet at the exchange to discuss and transact their business. To facilitate business the floor space is divided into eight sections, viz.—(1) Ores, Pig-iron, Semi-finished Steel, Scrap Iron and Steel; (2) Iron and Steel Bars; (3) Steel Sheets etc.; (4) Structural Iron and Steel Work, Machine Tools and General Machinery; (5) Railway Material: (6) Castings and Tubes; (7) Hollow Ware, Hardware, Nails, Tools, etc.; (8) Non-ferrous Metals. This arrangement enables hardware merchants, structural engineers, boiler makers, etc., to get more promptly in touch with the class of member they require.

[1] The London Timber Exchange is also held there.

"**Futures**" is the name given to a standard form of contract for future delivery, the conditions of which, having been adopted by the mutual consent of dealers, are defined in the rules set down by the Exchange Committee. "Futures" proper differ in no way from other forward contracts except in so far as their terms are standardized, the stipulations regarding quality, quantity (expressed in units of fixed amount), time and place of delivery, mode of payment, default, settlement of disputes by arbitration, etc., being stereotyped. The quality is determined by the same standards as are used for other contracts, but "futures" proper usually refer to but one grade.

"Futures" are chiefly applied to the following commodities: **Coffee**, **Sugar**, **Rubber**, **Wheat**, **Maize**, **Rye**, and **Non-Ferrous Metals**. There used to be "futures" in pig-iron (Cleveland No. 3).

The object of the system—which does not exist on all produce exchanges—is to simplify dealings for future delivery, and thus to facilitate the inter-action of supply and demand In a word, it makes the market more "liquid" The terms of contract, being standardized, require no special investigation by intending buyers and sellers, and as the number of dealings thereby tends to increase, dealers are enabled to satisfy their requirements more readily than would be possible outside the nucleus of the market.

Naturally such facilities encourage the operation of speculators, but they convenience the manufacturer too, by enabling him to follow closely the trend of the market, and sell out to buy again where he sees an opportunity of securing his supplies at better prices. Moreover, producers and users alike make use of futures for the purpose of "Hedging" (p. 430) against market fluctuations.

The producer or importer who sells "futures" has no means of knowing whether the other party (usually represented by a broker) intends actually to take delivery of

the goods himself, or to sell out again before the settlement. His contract may result in a long series of others, by which the right to the goods passes from operator to operator until the last buyer finally claims delivery at his own buying price, which may differ widely from that stipulated by the original seller.

Settlement.—So long as future dealings do not assume great proportions, the settlement between original seller and final buyer may proceed without difficulty through all the intermediate parties. Just before "prompt" the original seller, who has goods to deliver, hands to his immediate buyer a **Tender** offering delivery according to contract, and stating where the goods are warehoused. If the buyer, not wishing to take delivery himself, has sold for the same date, he endorses the Tender and passes it on to his own buyer. Each intervening party has nothing further to do but to endorse the Tender and pass it on, until the Tender eventually reaches an *effective* buyer (*i e.* a buyer who wishes to take delivery), who is thus enabled to get into direct touch with the original effective seller (*i.e.* the seller who has goods to deliver), and obtain from him a Warehouse Warrant in exchange for a cheque. Each intervening party pays his immediate seller and receives payment from his immediate buyer, the difference between the two amounts being a gain or a loss as the case may be.

It may, and sometimes does happen, where a person has bought and sold for the same settlement, that the very tender he issued as seller returns to him as buyer. In other words the tender has completed a "**ring**," thus:—

A tenders (say) 250 bags Produce to	B.
B. passes tender to	C
C ,, ,,	D
D ,, ,,	E
E ,, ,,	A

In such a case no goods are delivered at all, but each operator gains or loses the difference between the prices at which he bought and sold.

In practice more "future" deals are settled by the payment of differences in money than by actual delivery of goods.

In most centres where "futures" are dealt in, the settlement is undertaken systematically in a Settling Room attached to the exchange. A Contract or "Clearing" Account is opened for each dealer, in which the quantities bought are set off against the quantities sold, the balance being the quantity to be delivered to or by him. Thus :

Messrs. H. Paul & Co.
In account with

Bought on balance Tons	NAME	Sold on balance Tons
	Johnson - - - - -	
	Kingsley - - - - -	
25	Langford - - - - -	
	Morrison - - - - -	25
	North - - - - - -	
	Orchard - - - - -	25
	Paul - - - - - -	
50	Querk - - - - - -	
	Roberts - - - - -	
	Samuel - - - - - -	
	Thomas - - - - -	
—	Sold.. Balance.. Bought	25
75		75

On the day before each "prompt," sellers who have produce to deliver, and buyers who have to receive produce, submit to the exchange a list of the contracts falling due on that date, and each receives from the settling room his account as above, and a slip giving the name of the party to whom or from whom delivery is to be made. The Warehouse Warrants then pass privately.

The above is roughly the procedure followed on the London Metal Exchange, and is similar in principal, if not in detail, to the systems obtaining on other exchanges.

On the London Metal Exchange dealers settle accounts with each other direct by cheque or in cash, but the settling rooms of some exchanges settle differences as well as deliveries. At Mincing Lane there is no settling room, but "futures" in coffee and rubber may be negotiated through the produce clearing house.

If a buyer or seller should fail to fulfil his part of the bargain the other party is entitled to damages to the extent of his loss. Usually, by the rules of the exchange, the injured party has the right to "buy in or sell out" in the open market and charge the defaulter with any loss resulting from the difference between contract price and the price actually paid or realized. Or the rules may fix the damages at the difference between contract price and official spot price on settlement day. An immediate settlement may be demanded should one of the parties before prompt day suspend payments, or show other signs of his inability to fulfil his contract.

It is naturally a matter of the greatest importance to dealers to guard against possible losses through dealing with insolvent parties. In some cases part security is required in the shape of a joint bank deposit; whilst a condition of membership to most exchanges is that all dealers shall bring substantial security in cash and sureties.

TRADE IN NON-FERROUS METALS.

The London Metal Exchange is the property of a limited company, every shareholder in which must be a member of the Exchange. Members need not hold shares, but every member must pay an entrance fee of 500 guineas, and every member who wishes to deal on the exchange must provide surety amounting, at the discretion of the Directors, to from £5000 to £6000. Non-dealing members must not deal on the exchange, but they may attend and conclude their contracts outside.

Only *Copper*, *Tin*, *Lead*, and *Spelter* (*i.e.* Zinc) are dealt in, and the quality of the produce is graded by analysis. Thus the best grade of tin (Banka tin) is 99·95% fine, whereas

a lower grade (Wing Hong & Co. No. 3) contains only 95·28% of pure tin, on the average.

(*Market Report from daily press.*)

METALS —The market for tin suffered a sharp decline in face of heavy selling pressure, though forwards closed above the lowest, with cash on balance £9, and forward £8 10*s* per ton easier since last Friday's close Cash quoted £191 to £191 10*s* ; three months, £196 to £196 10*s* Settlement price £191 Sales 600 tons; cash at £195 to £190 10*s* ; February dates, £197 to £194; three months, £195 to £200, then at £196. Copper in moderate support, but 20*s* down on balance as sellers were fairly well to the fore. Cash quoted £72 to £72 5*s*.; three months, £71 15*s* to £72 Settlement price £72 Sales 700 tons, cash at £72 5*s* ; early March, £72 5*s* to £71 5*s* , three months, £71 10*s* , Electros, £80 to £82 Lead lower Sales 700 tons, January to April at £23 5*s* Spelter weaker Sales 400 tons, January, £24 12*s* 6*d* , February, £25 March, £25 10*s* per ton Quicksilver, £12 15*s* per bottle

Contracts may be made for **special brands**, or "**standards**" contained in the official lists, or any metal of good merchantable quality (**G.M.Q.**), approved by the Exchange Committee.

The forms of contract for "Futures" refer to "standard" metal, consisting of any of the Brands and Descriptions contained in the Official List, which may be seen on application to the Secretary of the Exchange. The basis of quality is expressed as a percentage of fine metal contained in the produce. (In the case of Copper, the basis is Refined Copper assaying not less than 99% and not more than 99.3%, with 10*s*. per ton more if the assay exceeds 99 3%, or £1 per ton more if it exceeds 99 8%, a rebate being allowed for Rough Copper. Metal of less than the minimum fineness stated in the rules of the contract is not valid tender, and Certificates of Assay or Quality by experts, analysts or assayers approved by the Committee must be attached to all warrants except those for Standard metal. Warrants for standard metal are valid tender without certificates, but buyers need only pay a sum on account, the balance to be paid on production of the certificate, and subject to the buyer's right of rejection should the certificate subsequently prove that the metal is not valid tender.

The minimum units for "futures" are 5 tons Tin, 25 tons Copper, 25 tons Lead, or 50 tons Spelter. The metal is tendered by means of warrants issued by the public warehouses in London, Liverpool. Birkenhead, Swansea, Port Talbot, Birmingham, or Newcastle-on-Tyne, the names of which appear on the Official List of the Committee.

Produce Clearing Houses do the work of a settling room, and at the same time provide security to dealers by guaranteeing their contracts. The Clearing House guarantees to both buyer and seller the fulfilment, in accordance with its

regulations, of every contract which has been registered in its books.

The first produce clearing-house was instituted at Havre in 1882 for future dealings in coffee, and in the same year another was founded at New York. In 1887 others sprang up in Hamburg, Paris, Antwerp, and in 1888 in London, Marseilles, Amsterdam, and Rotterdam. The number has much increased since then.

The documents reproduced on the following pages should be carefully studied, as they are those used by a produce clearing house [1] on one of our most important markets.

By the rules of most produce clearing houses, no contract can be registered unless presented by a broker who is a member of the Clearing House (C H) To secure registration a **cash deposit** must be paid to the C H , amounting to say £100 per unit of say 250 bags Coffee [2] or five tons Rubber.[3] Each party then receives an official Contract Note and Certificate of Guarantee. Naturally the clearing house company makes a profit by charging fees.

The **Buyer's Contract Note** reproduced on pp. 416-8 is that received by a buyer of Santos coffee who deals through a clearing house broker It is printed in duplicate, the two parts being separated by a perforated line, and each part containing exactly the same conditions as the other, on front and back. The broker signs both parts, hands one to the buyer, and delivers the other, after signature by the buyer, to the clearing house company

The **Seller's Contract Note** is identical in every respect to the note received by the buyer, except in so far as it refers to a sale instead of a purchase, and therefore contains the words " sold " and " seller " where the words " bought " and " buyer " occur on the buyer's note.

[1] The name of the company is not the XYZ Produce Clearing House, Limited.

[2] Basis : Good Santos.

[3] Basis : Hevea Braziliensis, No. 1 Crepe.

BUYER'S CONTRACT
(*Conditions*

THIS PART TO BE LEFT WITH THE BUYER.

CONTRACT.

LONDON,.. ....192....

Bought for

. ...Bags Santos Coffee (Basis good).

(Every 250 Bags equal to about 290 cwt. net.)

Delivery.......... ....192....

Price............ .. ..per cwt. net, less 1% Discount.

Subject to the Regulations and Conditions of THE XYZ PRODUCE CLEARING-HOUSE, LIMITED, for Santos Coffee future delivery business.

This Contract shall be forthwith registered with THE XYZ PRODUCE CLEARING-HOUSE, LIMITED, and subject to its Regulations the Clearing-House guarantees to both buyer and seller the fulfilment in accordance therewith of any contract which has been registered in its books. In consideration of such registration and guarantee, the buyer and seller respectively agree with each other and with the Clearing-House, and subject to its Regulations, to accept by way of novation such other sellers and buyers respectively (if any) as the Clearing-House may from time to time appoint for the sale or purchase of the Coffee mentioned in this Contract.

Brokerage.......... ....

....Broker.

See over.

ARBITRATION.

Every difference or dispute arising out of this Contract shall be referred to Arbitration in accordance with § 17 of the Company's Regulations.

NOTE (FOR COFFEE).
on Back.)

Counterpart from.................. ....

To

The XYZ Produce Clearing-House,

LIMITED.

COPY OF CONTRACT.

LONDON,.... ....192....

Bought for

..................Bags Santos Coffee (Basis good).
(Every 250 Bags equal to about 290 cwt. net.)

Delivery.......................................192....

Price...................... per cwt. net, less 1% Discount.

Subject to the Regulations and Conditions of THE XYZ PRODUCE CLEARING-HOUSE, LIMITED, for Santos Coffee future delivery business.

This Contract shall be forthwith registered with THE XYZ PRODUCE CLEARING-HOUSE, LIMITED, and subject to its Regulations the Clearing-House guarantees to both buyer and seller the fulfilment in accordance therewith of any contract which has been registered in its books. In consideration of such registration and guarantee, the buyer and seller respectively agree with each other and with the Clearing-House, and subject to its Regulations, to accept by way of novation such other sellers and buyers respectively (if any) as the Clearing-House may from time to time appoint for the sale or purchase of the Coffee mentioned in this Contract.

Brokerage........ . ...

....Broker.

Confirmed.............. ....Buyer.

Reg. No............

ARBITRATION.

Every difference or dispute arising out of this Contract shall be referred to Arbitration in accordance with § 17 of the Company's Regulations.

THIS PART TO BE DELIVERED AT THE COM Y'S O

CONDITIONS ON BACK OF CONTRACT.

SANTOS COFFEE.

(The XYZ Produce Clearing House, Ltd., is here called "The Company.")

No Contract is registered except for contracting parties being members of the Company and residing in the United Kingdom.

No Contract is registered unless presented by an authorized Coffee Broker.

The Certificate of Guarantee is the only proof issued by the Company of a Contract having been registered.

As long as there is no Certificate of Guarantee issued the registration must not be deemed to be complete.

Certificates of Guarantee are not endorsable and/or transferable.

The Company is only responsible to the parties in whose name the Contracts have been registered.

CERTIFICATE OF GUARANTEE TO BUYER.

CERTIFICATE OF GUARANTEE.

For..Buyer.

THE XYZ PRODUCE CLEARING-HOUSE LIMITED.

Subject to the Regulations, Conditions and Bye-Laws, guarantee to you the fulfilment by the Seller of the Contract, No. for the Delivery of

250 Bags Santos Coffee (Basis "good")
Equal to about 290 cwt. net.

Delivery :...................., 19.... Brokerage..............%.

Price :......... .. *d.* per cwt. net with 1% Discount.

London,. . ...

Manager. Sub-Manager.

SELLER'S TENDER TO C.H.

TENDER. Regd. No..
Due

To The XYZ Produce Clearing-House, Limited,

..............hereby tender in fulfilment of...........Contract, as per attached Certificate of Guarantee, No............

250 Bags Santos Coffee ;

Marks :.............. Certificate of Quality No.................

For Delivery......................, 192...

Warehoused at...

London,......................., 192....

C.H. TENDER TO BUYER.

Due....................

The XYZ Produce Clearing House, Limited.

TENDER FOR

250 Bags Santos Coffee,

as per Copy of Certificate of Quality No............ hereto attached.

Final day of Weighing........... Delivery, ...192...

Tendered to.............. ....Contract No............
.................o'clock ...m. London,....................192..,
The XYZ Produce Clearing-House, Limited,
....Manager. 4

Returned to XYZ Produce Clearing-House, Limited,
...................o'clock ...m. London,......................192...

Tendered to... ....Contract No............
.................o'clock ...m. London,.......................192...
The XYZ Produce Clearing-House, Limited,
....Manager. 3

Returned to XYZ Produce Clearing-House, Limited,
................o'clock ...m. London,....................192...

Tendered to...............................Contract No............
... .o'clock ...m. London,....................192...
The XYZ Produce Clearing-House, Limited,
....Manager. 2

Returned to XYZ Produce Clearing-House, Limited,
...................o'clock ...m. London,.................192...

Tendered to...............................Contract No............
.................o'clock ...m. London,....................192...
The XYZ Produce Clearing-House, Limited,
...................................Manager. 1

Returned to XYZ Produce Clearing-House, Limited,
...................o'clock ...m. London,.................192...

STATEMENT OF ACCOUNT.

THE XYZ PRODUCE CLEARING-HOUSE, LIMITED.

FINAL SETTLEMENT

for............ ....

.........................BAGS SANTOS COFFEE.

Delivery,....................192.... *Cr.*

ntract. Price	Net Amount			Brokerage.				Contract No. Price	Net Amount.			Brokerage.			
	£	s.	d	%	£	s.	d		£	s.	d.	%	£	s.	d.
£				£				£				£			
								Difference							
								Interest to 192							
								days at % p ann.							
								Brokerage							
£								Balance in favour £							

London, 192. .

Having bought or sold, the speculative dealer will probably cover his contract before "prompt." He thus finds himself with two contracts and two certificates of guarantee, in one of which he is named as buyer and in the other as seller. In other words he has become a middle party between two others. Such middle party surrenders to the C. H. his two certificates of guarantee, and thereupon ceases to be under any liability to receive or deliver produce, and his deposit, being no longer necessary, may be returned to him, and he can already settle with the clearing house the difference between the value of his two contracts, less discount up to the date of prompt.

A **Certificate of Guarantee** as shown on p. 419 is delivered to every buyer and seller, signed by the manager and sub-manager of the C.H., as proof that the contract has been registered.

The middle party's immediate buyer and seller respectively are deemed to contract with each other, agreeing, however, to accept by way of novation such other sellers or buyers respectively as the C.H. may appoint.

Within the time specified by the rules of the C.H. the seller who has goods to deliver tenders them to the C.H. by means of the **Seller's Tender** shown on p. 419.

The buyer who is to receive the goods receives a tender from the C.H. (**Tender to buyer**, Fig. 420). After receipt of the tender the buyer is not obliged actually to take delivery. He may sell again through the C.H., either the whole of the quantity or a part, at any time up to the moment specified for delivery. For each quantity so sold the holder of the tender fills in one of the slips numbered 1, 2, 3 or 4, and returns it to the C.H. to show that the quantity deliverable to him is reduced to that extent.

The form of **Statement of Account** sent to each operator at the final settlement is shown on p. 421.

An account is opened with every member of firm doing business with the C.H., and the amount standing to the credit of such account may be appropriated to meet deposits and margins due to the C.H. Interest is allowed on credit balances. including deposits and margins, and is settled at the end of every quarter.

THE CORN TRADE.

Exchange dealings probably play a more important part in the distribution of grain than in any other branch of trade. Wheat and (on the Continent) Rye are the most essential of foodstuffs, and whereas the harvest is reaped but once a year, the manufacture of flour must never cease.

Almost every port receives grain cargoes, and the trade at each importing centre is regulated by a local **corn trade association.** The Baltic and Mark Lane exchanges in London have been already referred to.

The quality of wheat is determined by the country of origin and a system of grading based on various characteristics, of which *gravity* (expressed in lbs. per bushel) is usually the most important. A perfect classification of grain is, however, difficult to arrange, and buyers also frequently take samples of each consignment. The contracts usually contain the stipulation "F.A.Q.," which means that the wheat is warranted to be of "fair average quality" in accordance with standard. *Home grown wheat* is sold by sample on the Mark Lane and provincial exchanges, but the buyer is allowed three days in which to inspect the bulk, and confirm or reject if not up to sample.

Australian, *Indian* and *Argentinian* wheats are graded here in conjunction with shippers on the other side; but the *North American* grades are certified by the U.S. and Canadian governments, as already stated. U.S. wheat is divided into four grades.

Futures in wheat and maize were introduced in London by the London Produce Clearing House, but were discontinued. Future dealings in American wheat refer to produce not inferior to *No. 1 Northern Spring* (*Duluth Certificate*), of gravity not less than 60 lbs. per bushel and containing not more than 3% chaff. The unit of quantity is one cental (100 lbs.).

(*Market report from daily press.*)

THE BALTIC.

WHEAT—Unchanged at official rates, 87*s* 6*d* paid Australian afloat Leith, 92*s* paid No 1 Northern Manitoba ex-store London, 75*s* paid Manchurian afloat London.

MAIZE—Cargoes easier, 56*s* sellers La Plata steamer loading, 43*s*. sellers La Plata steamer April-May, 39*s* sellers La Plata steamer May-June, 53*s* 6*d* sellers Galatz Foxanian Bassarabian expected due out. Parcels—Plate firm, 51*s* 9*d* to 52*s* 6*d* La Plata Jan-Feb, 44*s* 6*d*. sellers mixed American afloat, 42*s* 9*d* paid mixed American Feb-March 53*s* paid La Plata afloat, 52*s* 6*d* paid La Plata shipping shipped

BARLEY neglected A cargo of superior Californian Feb-March is offered at 49*s*.

OATS opened steady, closed firm; 25*s* 6*d*. to 26*s*. paid River Plate f a q Feb-March, 25*s*. 3*d*. to 25*s* 6*d* ditto March-April, 27*s*. 3*d*. to 27*s* 9*d* ditto Jan.-Feb 26*s*. 6*d* ditto afloat

Future dealings in Cereals are provided for on the corn exchanges of Liverpool, Chicago, Rotterdam, Amsterdam, Paris, Marseilles and Budapest, but futures proper in cereals are forbidden in Germany.

Bulling and Bearing are terms used in connection with speculative dealings in "futures," stock exchange securities,

foreign bills or anything else that may lend itself to such transactions.

The "Bull" is a speculator who buys forward with a view of selling again at a profit before the settlement.

The "Bear" sells forward in the hope that before the settlement he will be able to fulfil his obligation to deliver the goods or securities at a cheaper price than that at which he has contracted to deliver, and make a profit on the difference.

It is possible for speculators to create an artificial movement in prices by uniting to buy or sell suddenly a particular commodity or security in such quantities as to drain or flood the market. Bulls co-operating to monopolise supplies are said to create a **corner**, whereas concerted action on the part of Bears to "bang the market" by selling so persistently as to cause prices to drop, is known as a **bear rig**. If the bulls know what is happening, they will quietly take all the bears offer, and then demand high prices before the settlement. Then arises what is called a **bear squeeze**; the bears, obliged to fulfil their contracts, "rush to cover."

THE COTTON TRADE.

The **Liverpool Cotton Exchange** is the largest market for raw cotton in the world, and is the only market for cotton "futures" in this country. Dealings also take place at the **Manchester Royal Exchange** which is the principal world market for yarn and cotton fabrics.

Situated as it is in the heart of the textile industry, and in direct steamboat communication with all countries, the Liverpool market receives supplies from America, Egypt, Brazil, Peru, India and all other cotton producing areas.

American cotton is graded by the Liverpool cotton brokers, in uniformity with the American standards, as follows :—

	Ordinary	Mid.	Middling.
G.O.	Good ordinary.	F.M.	Fully middling.
F.G.O.	Fully good ordinary.	G.M.	Good middling.
L.M.	Low middling.	F.G.M.	Fully good middling.
F.L.M.	Fully low middling.	M.F.	Mid fair.

The other classes of cotton are graded in a similar manner, but in fewer grades.

(*Market Report from daily press.*)

COTTON.

LIVERPOOL, Oct. 14—Spot American in small demand, and quotations 15 points lower. Brazilians 15 points lower. Egyptian quiet, rates of "Fine" and "Extra Fine" of Brown 100 points lower; other grades of Brown 50 points down East Indian reduced 15 points. Peruvian: Quotations of Smooth 16 points higher on the week.

Middling American -	8 27*d*	F G. Oomra - -	6 75*d*.
Egypt, F.G F. Sakellarides	16 50*d*	Fine Oomra - -	7 00*d*.
F. Pernam - - -	8 62*d*	Good Bengal - -	4 75*d*.
Good Broach - -	7 65*d*	F G Bengal - -	5.25*d*.
F.G. Broach - -	7 90*d*	Fine Bengal - -	5 50*d*.
Fine Broach - -	8 15*d*	F G F. Tinnivelly -	8 40*d*.
Good Oomra - -	6.25*d*.	Good Tinnivelly - -	8 65*d*.

Yesterday's imports · American, 11,600 bales; East Indian, 1,000; total, 12,600. Sales comprise American, 3,750, Egyptian, 50, East Indian, 200, total, 4,000.

AMERICAN FUTURES—In sympathy with the decline in New York values opened 10 to 13 points lower, and during the morning the market ruled quietly steady, though the mid-day quotations were again a little easier, being marked 12 to 15 points under Thursday night The decline progressed in the afternoon owing to continued selling pressure, but near the close a sharp recovery resulted from heavy straddle buying and bear covering on forecasts of colder weather in Texas

Closing of futures, American, tendency quiet

Feb.	8 50	June - -	8 81	Oct - -	9 07
March	8 57	July - -	8 95	Nov. - -	9 09
April	8.63	August - -	8 99	Dec - -	9 11
May	8.77	Sept. - -	9 04	Jan. - -	9 13

Egyptian basis, F.G F. Sakellarides—Feb 13.80; Mar., 13 30; April, 13.35; May, 13.40; June, 13 45, July, 13.45, Aug. 13 50; Sept., 13.55; Oct., 13.60; Nov 13.60.

Future contracts are confined to one grade ("Mid." for American and "F.G.F." for Egyptian cotton), and are expressed in units of 100 bales. Prices are quoted in pence and hundredths of a penny per lb.

Non-members, not being admitted to the Exchange, must employ brokers to deal for them, so that each transaction requires the services of a **buying broker** and a **selling broker**. For this reason a good deal of business takes place outside the Exchange, and spinners sometimes contract direct with American shippers or their agents in order to avoid paying double brokerage. Cotton brokers act not only in a representative capacity; they also deal on their own behalf.

American Cotton.—The planters are in most cases small holders, cultivating very little each. They are largely negroes.

As the cotton is picked, it is sent to the **ginneries**, where it is "ginned," *i.e.* the lint is separated from the seeds, and the dirt and impurities are removed. The lint is then loosely packed into what is known as the "big bale," to facilitate its removal to powerful **baling presses** to be compressed further

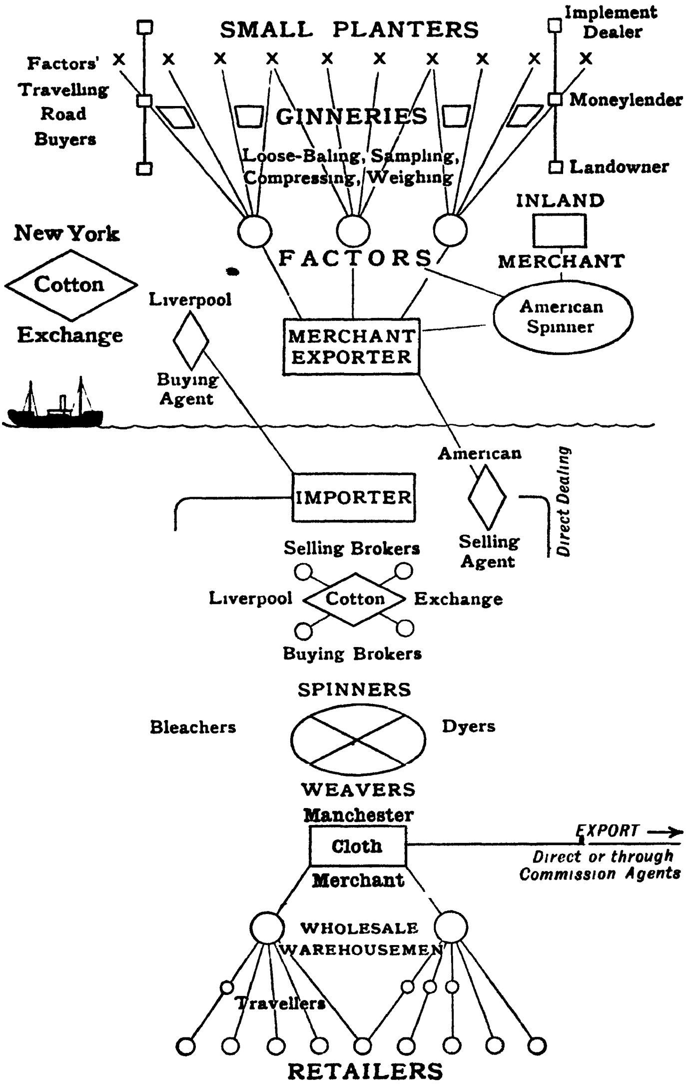


FIG. 40.—ORGANIZATION OF ANGLO-AMERICAN COTTON TRADE.

for economy in transport. Samples are taken, and the bales weighed under *official supervision*—a custom introduced for the protection of the farmer. The samples are submitted to **Local Factors**, who buy of the farmers outright, at an agreed contract price per grade, and pay cash on delivery.

Contracts are often made long before the crops are ready, by which means the planter is relieved of the anxiety of being able to sell at a satisfactory price; for the factor must stand to his contract, and if prices decline afterwards *he* loses, not the planter.

The factors often finance the planters by advancing them money on the security of their coming crops, and not infrequently exploit the borrower's inability to repay as stipulated by agreeing to accept payment in cotton, at an unfavourable price. The local dealer in implements, fertilizers, etc., and the landowner, not to mention the ubiquitous moneylender, have been found to take a similar advantage; but such things are not only seen on the cotton fields.

The factor disposes of his purchases to

(*a*) an Inland Merchant, *or*
(*b*) a Merchant Shipper, *or*
(*c*) the agent of a Liverpool Importer.

The American inland and shipping merchants alike supply American Spinners, and since in the ordinary course of business they buy before they sell, they are exposed to the risk (as the factors were but on a larger scale) that when they come to sell the market price may have declined to less than the figure at which they bought. They frequently protect themselves against this risk by an operation known on the cotton exchanges as "**hedging**." (See p. 430.)

American Shippers export to Liverpool either on consignment or against firm orders; in other words, **Liverpool Importers** may act as commission agents or as merchants. But quite a number of American shippers have established **agencies in Liverpool** in order to get into direct contact with buyers here; on the other hand many Liverpool import merchants have their own buying agents at the U.S. southern ports.

Straddles.—A "straddle" is a speculation on the gaps between prices for "futures" deliverable at different periods, or on the gaps between the prices of different grades of produce.

A glance at the cotton report on p. 425 will show that "future" prices for **near dates** may differ considerably

from those for **distant dates**. These gaps, like all other price movements, are due to causes of which dealers are more or less cognisant, and they provide opportunity for speculation.

Suppose that in February a dealer

Buys 100 b/s cotton for April at say 8.63*d*. per lb. *and*
Sells 100 ,, ,, August at say 8.99*d*. per lb.

It is immaterial to him whether prices *as a whole* move up or down; but if subsequently the *gap* between the quotations for April and August cotton becomes less, he can make a profit by reversing his deal, thus: He

Sells 100 b/s cotton for April at say 8.20
[or perhaps 9.20.] and
Buys 100 b/s cotton for August at say 8.33
[or perhaps 9.33].

Whereas the gap was 36 points, it is now only 13 points, which means that he has made a profit of 0.23*d*. on every lb. of the 100 bales bought and sold. In other words

(*if prices as a whole have fallen as above*)
He has bought at 8.63 to sell at 8.20 - losing 0.43*d*. per lb.
and has sold at 8.99 to cover at 8.33 - gaining 0.66*d*. ,,

Therefore he gains on the straddle 0.23*d*. ,,
or (*if the prices as a whole have risen as above*)
he sells at 9.20 - gaining 57 points, and
buys at 9.33 - losing 34 ,,

Resultant gain 23 ,, on each lb.

It will be evident that under other conditions and market tendencies the speculator would alter his tactics, *e.g.* by first selling near and buying distant futures.

Options.—An "option" is the right to ratify or cancel within a specified time a contract, the conditions of which are determined at the time the option is given.

The grantor of the option receives remuneration in the shape of a **premium** (say a round sum of 20*s*. per "unit") without which his undertaking to keep the contract open would be of no legal effect. The option and the contract

of sale are distinct agreements, each of which requires separate consideration.

An option to buy from the merchant or broker granting it is known as a "call" option, whereas an option to sell is called a "put" option. A "double" or "Put and Call" option, for which in most cases double premium is charged, gives the grantee the right to sell or buy as agreed within the period specified.

The Economic Effect of Speculation in "Futures."—Whatever may be speculators' motives in regard to dealings in "futures," the latter offer undoubted advantages to genuine trade and industry.

The introduction of "futures" naturally results in a considerable extension of the market, whereby as a rule every intending buyer or seller may find some one willing to meet his requirements at market price. It is immaterial to either party whether the other is effective buyer or seller, or merely a speculator; the main thing is that on the "futures" market he can immediately relieve himself of the anxiety of finding a supplier or a customer as the case may be. If the other party does not wish actually to receive or deliver goods in execution of the contract, he must and can easily find another buyer or seller to take his place.

It is also claimed for "futures," that where the number of speculators is great, violent fluctuations in price, which might prove disastrous to the producer or consumer, if they were in direct contact, is likely to be distributed over a number of different dealers.

Moreover, the constant counteraction of bulls and bears tends to keep prices to a true economic level, for by merely gambling in commodities, without regard to the actual state of the market, dealers would risk having to cover their obligations at great sacrifice when prices rebounded to their natural level. Thus, by persistent "short" selling, the bears may succeed in depressing prices, but they have to cover their obligations sooner or later by

buying exactly the same quantity as they have sold. Only the importer and producer, who bring actual supplies on to the market, are able to effect a permanent reduction in prices—which is just what they do not want to do.

Hedging.—One great advantage which *bona fide* traders and manufacturers may secure from "futures" is the opportunity which they provide for "**Hedging**" against fluctuations in prices. The "hedge" differs from other forms of speculation in that its object is not to make profit, but to *insure against a loss.*

So, for example, the merchant importer of wheat or cotton, having made purchases in the country of origin (through his agents or otherwise) at a certain price, depends upon realizing at least sufficient from the sale c.i.f. of each shipment to cover the cost, plus freight, insurances, charges, and a margin for profit. If prices fall before he has sold, all his trouble may result in a loss. But since a drop in prices would be favourable to a "bear" speculation, the merchant may insure against such a contingency by selling "futures" on the least sign of a drop. Now, if prices decline substantially, what he loses on the sale of his own arrivals he will win back again on the "futures."

Similarly, the miller or cotton spinner may (*a*) contract forward for his supplies, or (*b*) prefer to wait his own time and buy just what he wants in the spot market. If he chooses the latter course he can nevertheless insure against a rise in prices by buying "futures." Then if prices rise he will win on the "futures" what he may have to lose from having to pay dearly for his supplies.

Ill-Effects.—Like all good things, dealings in "futures" are capable of being used and abused. The opportunity they offer for all sorts of people to dabble in business whose only reality consists of the differences they will pay to or receive from the brokers they employ. This attracts a number of outsiders, whose influence is to produce erratic movements

rather than to stabilise prices. An effective "corner," backed by sufficiently large financial interests, may bring about a long period of high prices, but a complete monopoly is difficult to manœuvre. On more than one occasion a corner in cotton at New York has resulted in the shipment of American cotton from Liverpool back to the United States.

The most disastrous effect of "bearing" is not the temporary depression of prices, but the tendency it has to bring about a formidable rise in prices when the bears seek to cover their obligations. Bearing is always a much more dangerous form of speculation than bulling, for the bear has to cover his obligation, whatever it may cost him, and it is possible for bears to go on selling merrily and rejoicing at the continued decline in prices, not knowing that they have already sold more than will be available for purchase by the settlement. Speculators are usually well-informed; but their calculations may be upset by sudden disaster to the crops through hail or blight.

Exercise 15.

1. Give a short account of the origin of (*a*) exchange dealings and (*b*) sales by auction.

2. What kinds of goods are sold by auction, and why? (S.A.tpc.II.)

3. What sort of business is transacted on the exchanges, and why? Name some noted exchanges.

4. (*a*) Mention three commodities usually sold by standard, and three commodities usually sold by sample. Can you suggest any reason why some commodities are customarily sold by standard and others by sample? (S.A.tpc.III.)

(*b*) What other methods exist for determining the quality of goods? Give examples.

5. Explain "Spot," "To arrive," "tale quale," "order port."

6. Describe the organization of any wholesale market. (*Mention the provision market.*) (U.E.I.tpc.Int.)

7. What is meant by a contract for "forward delivery"? Show how such contracts may benefit (*a*) producers, (*b*) intermediaries and (*c*) consumers.

8. Distinguish between (*a*) legitimate business, (*b*) speculation and (*c*) gambling. Give examples.

9. Do you consider the speculative forward contracts serve any useful economic function, apart from yielding profit to individuals?

10. What are "futures"? State arguments for and against the State suppression or control of speculation in "futures."

11. What is a Produce Clearing House? Describe its advantages by comparison with conditions where no such organization exists.

12. Write what you know about the distribution of Cereals.

13. ,, ,, ,, Cotton.

14. ,, ,, ,, Coal.

15. ,, ,, ,, Metals.

16. Explain (*a*) Bulling, (*b*) Bearing, (*c*) Options.

17. Give an example of a "straddle" speculation.

18. Sometimes a manufacturer, or a trader, will deal in "futures" as a "hedge." Give an example of this, and show how it operates. (S.A.tpc.III.)

19. Compose a letter, as from a cotton broker in Liverpool to a correspondent in New Orleans, giving details of the arrival of American cotton in Liverpool and the consequent fall in prices. Advise him to make large purchases in view of the probable revival of business in the near future. (U.L.C.e. and c.c.4.)

20. Most commodities pass through many hands before reaching the ultimate consumer, but attempts at more direct trading are not always successful. Why is this? (S.A.tpc.II.)

21. Certain commodities are customarily quoted "Spot," and also for three months ahead. What is the object of this double price, and how does it differ from the double price on the Stock Exchange? (S.A.tpc.III.)

22. What are the principles on which a Clearing House is worked? Apart from banks, what trades, industries and occupations use clearing houses? (S.A.tpc.II.)

ABBREVIATIONS.

Latin Expressions.

Ad lib.	*ad libitum*	at pleasure.
ad val.	*ad valorem*	at (on) the value.
a.m.	*ante meridiem*	before noon.
	bona fide	with good faith.
B.Sc.	*baccalaureus scientiæ*	bachelor of science.
Cantab.	*Cantabrigiensis*	of Cambridge.
cap., c.	*caput*	chapter.
cent.	*centum*	a hundred.
cf.	*confer*	compare.
circ., cir.	*circa, circum*	about.
con.	*contra*	against.
d.	*denarius* ; *denarii*	penny ; pence.
D.D.	*divinitatis doctor*	doctor of divinity.
e.g.	*exempli gratia*	for the sake of example.
et al.	*et alibi*	and elsewhere.
	et alii (*aliæ*)	and others.
etc.	*et caeteri* (*caeteræ, caetera*)	and the rest, and so forth.
et seq., sq., sqq.	*et sequentes* (*sequentia*)	and the following.
ib., ibid.	*ibidem*	in the same place.
id.	*idem*	the same.
i.e.	*id est*	that is.
in trans.	*in transitu*	in transit.
lb.	*libra* ; *libræ*	pound ; pounds (weight).
LL.B.	*legum baccalaureus*	bachelor of laws.
LL.D.	*legum doctor*	doctor of laws.
£ s. d.	*libræ* ; *solidi* ; *denarii*	pounds ; shillings ; pence.
M.D.	*medicinæ doctor*	doctor of medicine.
mem., memo.	*memorandum, memoranda*	things to be remembered.
N.B.	*nota bene*	note well.

nem. con.	*nemine contradicente*	no one speaking against.
nem. diss.	*nemine dissentiente*	no one dissenting.
No.	*numero*	number.
Oxon.	*Oxonia*	Oxford.
per an.	*per annum*	yearly.
per cent.	*per centum*	by the hundred.
per pro., p.p.	*per procurationem*	by procuration.
Phil.D.	*philologiæ doctor*	doctor of philology.
Ph.D.	*philosophiæ doctor*	doctor of philosophy.
p.m.	*post meridiem*	after noon
	prima facie	at the first look.
	pro forma	for form.
pro tem.	*pro tempore*	for the time being.
prox.	*proximo*	next; of the next month.
P.S.	*post scriptum*	written after; postscript.
q.v.	*quod vide*	which see.
re	*in re*	in the matter of.
tal. qual. (often written "tale quale")	*talis qualis*	such as they are; just as they come.
ult.	*ultimo*	last; of the last month.
u.s.	*ut supra*	as above.
v.	*versus*	against.
viz.	*videlicet*	namely; to wit.

Terms used in Invoices and Accounts.

a/c	account.	Cr.	credit; creditor.
A/C	account current.	C/N	credit note.
amt.	amount.	cwt.	hundredweight.
A/S	account sales.	D/N	debit note.
@	at	Dr.	debit; debtor.
B/ (B/s)	bag(s) or bale(s).	D/y	delivery.
B/S	balance sheet	dis.	discount.
Bls.	bales.	do.	ditto.
Bx(s)	box(es).	E.E.	errors excepted.
bush.	bushel(s).	E. & O.E.	errors and omissions excepted.
b/d	brought down.		
b/f	brought forward.	fwd.	forward.
C/ (C/s)	case(s).	hhd.	hogshead.
c/d	carried down.	%	per cent.
c/f	carried forward.	°/oo	per mille; per thousand.
C.O.D.	cash on delivery.		
C.W.O.	cash with order.	P/C	prices current.
C.A.	Chartered accountant.	Pcl.	parcel.
		Pcs.	pieces.
Com.	commission.	Pd.	paid.
Con.	contra.	Pkgs.	packages.

.O.	Post Office ; postal order.	Regd.	registered.
.P.	parcel post.	retd.	returned.
ecd.	received.	Rly.	railway.
ect.	receipt.	wt.	weight.
ef.	reference.	yd.	yard

Terms relating to Banking.

cc.	acceptance.	M.O.	money order.
ffft.	affidavit.	m/s	months after sight.
/s	after sight.	N.A.	no advice.
.B.	bill book.	N.a.	non-acceptance.
/C	bills for collection.	n/e	no effects.
.D.	bills discounted.	n/f	no funds.
/Dft.	bank draft.	N/N	not to be noted.
/E (Bs/E)	bill(s) of exchange.	N/O	no orders.
k.	bank ; book.	N.P.	Notary Public.
.O.	branch office.	N/S	not sufficient.
.P.B.	bank post bill.	P/N	promissory note.
.H.	Clearing House.	R/D	refer to drawer.
/D	demand draft.	R.O.	receiving order.
/d	days after date.	O.R.	Official Receiver.
ft.	draft.	T.M.O.	telegraphic money order.
/R	deposit receipt.		
.O.	head office.	T.T.	telegraphic transfer.
/A	joint account.		
/d	months after date.		

Terms relating to Transport and Insurance.

.a.r.	against all risks.	D/W	dock warrant.
/or	and or.	Entd.	entered.
rr.	arrival.	Exd.	examined.
/L (Bs/L)	bill(s) of lading.	F/P	fire policy.
/P	charter-party.	f.g.a.	foreign general average.
.R.	carrier's risk.		
.p.d.	charterers pay dues.	f.a.a.	free of all average.
. & D.	collection and delivery.	f.c. & s.	free of capture and seizure.
.C.	continuation clause.	F.L.N.	following landing numbers.
bk.	drawback.	G/A	general average.
/w	deadweight.	Insce.	insurance.
/O	delivery order.	L.C.	label clause.
/C	deviation clause.	M/C	marginal clause.

M/R mate's receipt.
O.R. owner's risk.
P/A particular average.
P.P.I. policy proof of interest.
R.I. re-insurance.
R.D.C. running-down clause.
s. sailing ship.
S/N shipping note.
S. to S. station to station.
s.p.d. steamer pays dues.
ss., s.s. steamship.
s/y steam yacht.
U/w underwriter.
W.O.B. washed overboard.
W/W warehouse warrant.

Terms relating to Foreign Trade.

A/S account sales.
c.f.i. *or* c.i.f. cost, insurance and freight.
c.f. cost and freight.
cg. centigramme.
cm. centimetre.
D/A documents against acceptance.
D/P documents against payment.
L/C letter of credit.
£E Egyptian pound(s).
£T Turkish pound(s).
$ Dollar(s).
f.a.q. fair average quality.
f.a.s. free alongside ship.
f.o.r. free on rail.
f.o.s. free on ship.
f.o.t. free on truck.
hl. hectolitre(s).
H.M.C. His Majesty's Customs.
kg. kilogramme(s).
km. kilometre(s).
M/I marginal interest.
m. metre(s).
n/m not marked.

C.I.F.C.I. cost, insurance, freight, commission, interest

Terms relating to Finance.

Back Backwardation.
B.P. Bills payable.
B.R. Bills receivable.
C.B. cash book.
C/m call of more.
Consols Consolidated Annuities.
cum div. with dividend.
Cy. currency.
ex cp. without coupon.
ex div. without dividend.
ex in. without interest.
ex new without the right to take new shares.
I.R.O. Inland Revenue Office.
Iss. Issue.
L/A letter of authority.
L.S. Latin : *locus sigelli* = the place of the seal.
P/A power of attorney.
Shr. share.
x.c. ex coupon.
x.d. ex dividend.
x in. ex interest.
x. n. ex new.

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